

# POLYCOM INC

## FORM 10-Q (Quarterly Report)

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Address	6001 AMERICA CENTER DR. SAN JOSE, CA 95002
Telephone	408-586-6000
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Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2013

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-27978

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**POLYCOM, INC.**

(Exact name of registrant as specified in its charter)

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**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**94-3128324**  
(IRS employer  
identification number)

**6001 America Center Drive, San Jose, CA**  
(Address of principal executive offices)

**95002**  
(Zip Code)

**(408) 586-6000**  
(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 in Exchange Act). Yes  No

There were 172,522,255 shares of the Company's Common Stock, par value \$.0005, outstanding on April 19, 2013.

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**FOR THE QUARTER ENDED MARCH 31, 2013**

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PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

**POLYCOM, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)  
(in thousands, except share data)

	<u>March 31,</u>	<u>December 31,</u>
	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 502,851	\$ 477,073
Short-term investments	179,939	197,196
Trade receivables, net of allowance for doubtful accounts of \$2,706 and \$2,921 at March 31, 2013 and December 31, 2012, respectively	179,901	194,654
Inventories	97,551	99,960
Deferred taxes	48,874	48,916
Prepaid expenses and other current assets	<u>55,592</u>	<u>55,454</u>
Total current assets	1,064,708	1,073,253
Property and equipment, net	130,325	133,319
Long-term investments	45,650	50,333
Goodwill	559,714	553,819
Purchased intangibles, net	53,515	54,983
Deferred taxes	26,454	28,406
Other assets	<u>27,764</u>	<u>21,238</u>
Total assets	<u>\$1,908,130</u>	<u>\$1,915,351</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 100,805	\$ 89,983
Accrued payroll and related liabilities	27,277	39,469
Taxes payable	4,266	4,736
Deferred revenue	160,929	158,482
Other accrued liabilities	<u>53,821</u>	<u>63,018</u>
Total current liabilities	347,098	355,688
Non-current liabilities		
Long-term deferred revenue	92,060	91,061
Taxes payable	16,287	15,598
Deferred taxes	232	236
Other non-current liabilities	<u>25,695</u>	<u>22,079</u>
Total non-current liabilities	<u>134,274</u>	<u>128,974</u>
Total liabilities	481,372	484,662
Stockholders' equity		
Common stock, \$0.0005 par value; Authorized: 350,000,000 shares; Issued and outstanding: 174,535,366 shares at March 31, 2013 and 175,323,885 shares at December 31, 2012	37	38
Additional paid-in capital	1,332,373	1,326,436
Retained earnings	87,791	100,019
Accumulated other comprehensive income	<u>6,557</u>	<u>4,196</u>
Total stockholders' equity	<u>1,426,758</u>	<u>1,430,689</u>
Total liabilities and stockholders' equity	<u>\$1,908,130</u>	<u>\$1,915,351</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**POLYCOM, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)  
(in thousands, except per share data)

	<b>Three Months Ended</b>	
	<b>March 31, 2013</b>	<b>March 31, 2012</b>
<b>Revenues:</b>		
Product revenues	\$246,129	\$261,274
Service revenues	92,623	84,436
Total revenues	<u>338,752</u>	<u>345,710</u>
<b>Cost of revenues:</b>		
Cost of product revenues	101,878	105,130
Cost of service revenues	37,777	34,244
Total cost of revenues	<u>139,655</u>	<u>139,374</u>
Gross profit	<u>199,097</u>	<u>206,336</u>
<b>Operating expenses:</b>		
Sales and marketing	108,715	112,167
Research and development	55,935	49,702
General and administrative	23,694	21,317
Amortization of purchased intangibles	2,502	2,327
Restructuring costs	5,423	2,923
Acquisition-related costs	3,323	1,914
Total operating expenses	<u>199,592</u>	<u>190,350</u>
Operating income (loss)	(495)	15,986
Interest and other income (expense), net	(759)	(1,787)
Income (loss) from continuing operations before provision for (benefit from) income taxes	(1,254)	14,199
Provision for (benefit from) income taxes	(3,371)	1,850
Net income from continuing operations	2,117	12,349
Income from discontinued operations, net of taxes	—	2,753
Gain from sale of discontinued operations, net of taxes	459	—
Net income	<u>\$ 2,576</u>	<u>\$ 15,102</u>
<b>Basic net income per share:</b>		
Net income per share from continuing operations	\$ 0.01	\$ 0.07
Income per share from discontinued operations, net of taxes	—	\$ 0.02
Gain from sale of discontinued operations, net of taxes	—	—
Basic net income per share	<u>\$ 0.01</u>	<u>\$ 0.09</u>
<b>Diluted net income per share:</b>		
Net income per share from continuing operations	\$ 0.01	\$ 0.07
Income per share from discontinued operations, net of taxes	—	0.02
Gain from sale of discontinued operations, net of taxes	—	—
Diluted net income per share:	<u>\$ 0.01</u>	<u>\$ 0.08</u>
<b>Number of shares used in computation of net income per share:</b>		
Basic	<u>176,079</u>	<u>177,427</u>
Diluted	<u>179,140</u>	<u>180,488</u>

Note that earnings per share amounts for continuing operations, discontinued operations and net income, as presented above, are calculated individually and may not sum due to rounding differences.

The accompanying notes are an integral part of these condensed consolidated financial statements.

**POLYCOM, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**  
**(in thousands)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2013</b>	<b>2012</b>
Net income	\$ 2,576	\$15,102
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	64	1,055
Unrealized gains/(losses) on investments:		
Unrealized holding gains/losses arising during the period	(12)	15
Net gains/losses reclassified into earnings	66	—
Net unrealized gains on investments	54	15
Unrealized gains/(losses) on hedging securities:		
Unrealized hedge gains/losses arising during the period	2,957	(1,561)
Net gains/losses reclassified into earnings for revenue hedges	(627)	(2,376)
Net gains/losses reclassified into earnings for expense hedges	(87)	1,249
Net unrealized gains/(losses) on hedging securities	2,243	(2,688)
Other comprehensive income (loss)	2,361	(1,618)
Comprehensive income	\$ 4,937	\$13,484

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**POLYCOM, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(in thousands)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2013</b>	<b>2012</b>
Cash flows from operating activities:		
Net income	\$ 2,576	\$ 15,102
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,430	14,438
Amortization of purchased intangibles	3,768	6,446
Provision for doubtful accounts	—	250
Provision for excess and obsolete inventories	2,934	2,310
Non-cash stock-based compensation	17,771	18,146
Excess tax benefits from stock-based compensation	(155)	(4,939)
Loss on disposal of property and equipment	1,206	233
Net gain on sale of discontinued operations	(459)	—
Changes in assets and liabilities, net of effects of acquisitions:		
Trade receivables	17,179	8,118
Inventories	(525)	(16,729)
Deferred taxes	1,994	1,206
Prepaid expenses and other assets	(4,530)	(10,132)
Accounts payable	7,857	(855)
Taxes payable	(1,681)	4,632
Other accrued liabilities and deferred revenue	(15,351)	(6,189)
Net cash provided by operating activities	<u>49,014</u>	<u>32,037</u>
Cash flows from investing activities:		
Purchases of property and equipment	(12,757)	(15,800)
Purchases of investments	(55,368)	(92,355)
Proceeds from sale of investments	9,227	4,169
Proceeds from maturity of investments	68,136	76,900
Net cash received from sale of discontinued operations	556	—
Net cash (paid in) received from purchase acquisitions	(8,350)	85
Net cash provided by (used in) investing activities	<u>1,444</u>	<u>(27,001)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee option and stock purchase plans	13,206	14,607
Purchase and retirement of common stock	(38,041)	(9,745)
Excess tax benefits from stock-based compensation	155	4,939
Net cash (used in) provided by financing activities	<u>(24,680)</u>	<u>9,801</u>
Net increase in cash and cash equivalents	25,778	14,837
Cash and cash equivalents, beginning of period	477,073	375,441
Cash and cash equivalents, end of period	<u>\$502,851</u>	<u>\$390,278</u>

The condensed consolidated statements of cash flows include combined cash flows from continuing operations along with discontinued operations.

The accompanying notes are an integral part of these condensed consolidated financial statements.

**POLYCOM, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. BASIS OF PRESENTATION**

The accompanying unaudited financial statements, consisting of the condensed consolidated balance sheet as of March 31, 2013, the condensed consolidated statements of operations for the three months ended March 31, 2013 and 2012, the condensed consolidated statements of comprehensive income for the three months ended March 31, 2013 and 2012, and the condensed consolidated statements of cash flows for the three months ended March 31, 2013 and 2012, have been prepared in accordance with accounting principles generally accepted in the United States of America in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these condensed consolidated financial statements do not include all of the information and footnotes typically found in the audited consolidated financial statements and footnotes thereto included in the Annual Report on Form 10-K of Polycom, Inc. and its subsidiaries (the "Company"). In the opinion of management, all adjustments (primarily consisting of normal recurring adjustments) considered necessary for a fair statement have been included.

The condensed consolidated balance sheet at December 31, 2012 has been derived from the audited consolidated financial statements as of that date but does not include all of the information and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates and operating results for the three months ended March 31, 2013 and are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

Certain prior year amounts have been reclassified to conform to the current year presentation as a result of the discontinued operations discussed in Note 3 as well as a reallocation amongst our segments of certain services costs discussed in Note 15.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Company's significant accounting policies were described in Note 1 to the audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (the "2012 Form 10-K"). With the exception of the accounting standard update discussed below, there have been no significant changes to these policies and no recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2013, that are of significance or potential significance to the Company.

***Recent Accounting Pronouncements***

In February 2013, the Financial Standards Board ("FASB") issued an accounting standard update that requires an entity to expand the disclosure of reclassifications out of accumulated other comprehensive income ("AOCI"). The update requires companies to present reclassifications by component when reporting changes in AOCI balances and to report the effect of significant reclassifications on the respective line items in net income. The guidance is effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted the guidance in the quarter ended March 31, 2013, and such adoption did not have a material impact on the Company's condensed consolidated financial statements.

In December 2011, the FASB issued an accounting standard update that requires disclosure of the effect or potential effect of offsetting arrangements on a company's financial position as well as enhanced disclosure of the rights of setoff associated with a company's recognized assets and liabilities. In January 2013, the FASB issued another accounting standard update to clarify the scope of the standard issued in December 2011. The Company adopted the guidance in the quarter ended March 31, 2013, and such adoption did not have a material impact on the Company's condensed consolidated financial statements.

**3. DISCONTINUED OPERATIONS**

On May 10, 2012, the Company entered into a Purchase and Sale Agreement (the "Purchase Agreement") with Mobile Devices Holdings, LLC, a Delaware limited liability corporation ("Mobile Devices"), pursuant to which the Company would divest its enterprise wireless voice solutions ("EWS") business to an affiliate of Sun Capital Partners, Inc. On October 22, 2012, the Purchase Agreement was amended (the "Amended Purchase Agreement"). Per the terms of the Amended Purchase Agreement, Mobile Devices

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would acquire SpectraLink Corporation (“SpectraLink”), a wholly-owned subsidiary of the Company, by purchasing all of the outstanding stock and an intercompany note of SpectraLink from the Company. On December 4, 2012, the Company completed the disposition of the assets of its EWS business to Mobile Devices and received cash consideration of approximately \$50.7 million, resulting in a gain on sale of the discontinued operations, net of taxes, of \$35.4 million, as reflected in its consolidated financial statements for the year ended December 31, 2012. In the quarter ended March 31, 2013, the Company recorded an additional gain on sale of discontinued operations, net of taxes, of approximately \$0.5 million as a result of the final net working capital adjustment in accordance with the Purchase Agreement. Additional cash consideration of up to \$57.0 million is payable over the next four years subject to certain conditions, including meeting certain agreed-upon EBITDA-based milestones. Such additional cash consideration will be accounted for as a gain on sale of discontinued operations, net of taxes, when it is realized or realizable. In accordance with accounting guidance, the Company has included the results of operations of EWS in discontinued operations within the condensed consolidated statements of operations for all periods presented.

Summarized results from discontinued operations were as follows (in thousands):

	Three Months
	Ended March 31, 2012
Revenues	\$ 21,758
Income from discontinued operations	4,025
Provision for income taxes	1,272
Income from discontinued operations, net of taxes	\$ 2,753

There were no results from discontinued operations during the three months ended March 31, 2013, as the divestiture of the EWS business was completed in December 2012.

## 4. BUSINESS COMBINATIONS

On March 1, 2013 the Company completed its acquisition of certain assets of Senti, Inc. (“Senti”), a privately-held services company with expertise in Microsoft technologies, for approximately \$8.4 million in cash. The acquisition expands the Company’s advanced services offerings with an emphasis on multi-vendor unified communications solutions that can encompass video, voice, data, and networking.

The total preliminary purchase price was allocated to the net tangible and intangible assets based upon their fair values at March 1, 2013 with the excess amount recorded as goodwill. The goodwill is primarily attributable to the expertise of former Senti employees in Microsoft technologies and expected synergies from the combined company, and is not deductible for tax purposes. The Company has included the financial results of Senti in its condensed consolidated financial statements from the date of acquisition. Pro forma results of operations of the acquisition were not material to the Company’s condensed consolidated financial statements.

## 5. ACCOUNTS RECEIVABLE FINANCING

In 2012, the Company launched a customer financing program and entered into a financing agreement (the “Financing Agreement”) with an unrelated third party financing company. The program offers channel partners, distributors, and resellers direct or indirect financing on their purchases of the Company’s products and services. Pursuant to the terms of the Financing Agreement, the Company transfers accounts receivable from these customers, without recourse, to the financing company. In return, the Company agrees to pay the financing company a fee based on a pre-defined percentage of the transaction amount financed. If the transaction meets the applicable criteria under ASC 860 and is accounted for as a sale of financial assets, the accounts receivable are excluded from the balance sheet upon the third party financing company’s payment remittance to the Company. In certain legal jurisdictions, the arrangement fees that involve maintenance services or products bundled with maintenance at one price do not qualify as a sale of financial assets in accordance with the authoritative guidance. Accordingly, accounts receivable related to these arrangements are accounted for as a secured borrowing in accordance with ASC 860, and the Company records a liability for any cash received, while maintaining the associated accounts receivable balance until the end-customer remits payment to the third-party financing company.

In the quarter ended March 31, 2013, total transactions entered pursuant to the terms of the Financing Agreement were approximately \$24.9 million, of which \$22.3 million was related to the sale of the financial assets arrangement. The financing of these receivables accelerated the collection of the Company’s cash and reduced its credit exposure. The amount due from the financing company as of March 31, 2013 and December 31, 2012 was approximately \$16.8 million and 15.4 million, respectively, of which \$15.2 million and \$12.4 million, respectively, was related to the accounts receivable sold, and is included in “Trade receivables” in the Company’s condensed consolidated balance sheets. Fees incurred pursuant to the Financing Agreement were approximately \$0.3 million for the quarter ended March 31, 2013, and were recorded as a reduction to revenues. There were no such transactions in the quarter ended March 31, 2012.

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### 6. GOODWILL AND PURCHASED INTANGIBLES

The following table presents details of the Company's goodwill by segment during the three months ended March 31, 2013 (in thousands):

	<u>Americas</u>	<u>EMEA</u>	<u>APAC</u>	<u>Total</u>
Balance at December 31, 2012	\$302,768	\$101,882	\$149,169	\$553,819
Sentri acquisition	5,866	—	—	5,866
Foreign currency translation	—	—	29	29
Balance at March 31, 2013	<u>\$308,634</u>	<u>\$101,882</u>	<u>\$149,198</u>	<u>\$559,714</u>

The following table presents details of the Company's total purchased intangible assets as of March 31, 2013 and December 31, 2012 (in thousands):

	<u>March 31, 2013</u>			<u>December 31, 2012</u>		
	<u>Gross Value</u>	<u>Accumulated Amortization and Impairment</u>	<u>Net Value</u>	<u>Gross Value</u>	<u>Accumulated Amortization and Impairment</u>	<u>Net Value</u>
<b>Purchased Intangible Assets</b>						
Core and developed technology	\$ 81,178	\$ (68,839)	\$12,339	\$ 81,178	\$ (67,514)	\$13,664
Customer and partner relationships	79,525	(41,849)	37,676	79,025	(39,578)	39,447
Non-compete agreements	1,800	(50)	1,750	—	—	—
Trade name	3,400	(2,868)	532	3,400	(2,746)	654
Other	4,462	(4,162)	300	4,462	(4,162)	300
Finite-lived intangible assets	170,365	(117,768)	52,597	168,065	(114,000)	54,065
Indefinite life trade name	918	—	918	918	—	918
Total	<u>\$171,283</u>	<u>\$ (117,768)</u>	<u>\$53,515</u>	<u>\$168,983</u>	<u>\$ (114,000)</u>	<u>\$54,983</u>

Purchased intangibles include a purchased trade name of \$0.9 million with an indefinite life as the Company expects to generate cash flows related to this asset indefinitely. Consequently, this trade name is not amortized but is reviewed for impairment annually or sooner when indicators of potential impairment exist.

For the three months ended March 31, 2013 and 2012, the Company recorded amortization expense related to purchased intangibles of \$2.5 million and \$2.3 million, respectively, which is included in "Amortization of purchased intangibles" of the condensed consolidated statements of operations. The Company recorded approximately \$1.3 million and \$1.9 million during the three months ended March 31, 2013 and 2012, respectively, of amortization of purchased intangibles to "Cost of product revenues" in the condensed consolidated statements of operations. Amortization of intangibles is not allocated to the Company's segments.

The estimated future amortization expense of purchased intangible assets as of March 31, 2013 is as follows (in thousands):

<u>Year ending December 31,</u>	<u>Amount</u>
Remainder of 2013	\$11,291
2014	14,510
2015	12,226
2016	9,880
2017	4,690
Total	<u>\$52,597</u>

### 7. RESTRUCTURING COSTS

During the three months ended March 31, 2013 and 2012, the Company recorded charges totaling \$5.4 million and \$2.9 million, respectively, related to restructuring actions that resulted from the consolidation and elimination of certain facilities as well as the elimination or relocation of engineering positions that were primarily as a result of downsizing the Company's Burnaby, Canada location as part of restructuring plans approved by management. These actions are generally intended to consolidate operations in order to gain efficiencies and reallocate resources to more strategic growth areas of the business.

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The following table summarizes the status of the Company's restructuring reserves (in thousands):

	<u>Severance/Other</u>	<u>Facilities</u>	<u>Total</u>
Balance at December 31, 2012	\$ 1,362	\$ 7,464	\$ 8,826
Additions to the reserve	2,127	3,800	5,927
Non-cash write-off of leasehold improvements	—	(705)	(705)
Cash payments and other usage	(1,479)	(945)	(2,424)
Balance at March 31, 2013	<u>\$ 2,010</u>	<u>\$ 9,614</u>	<u>\$ 11,624</u>

As of March 31, 2013, the restructuring reserve is primarily comprised of facilities-related liabilities. The Company calculated the fair value of its facilities-related liabilities based on the discounted future lease payments less sublease assumptions. This fair value measurement is classified as a Level 3 measurement under ASC 820. The key assumptions used in the valuation model include discount rates, cash flow projections, and estimated sublease income. Discount rates, cash flow projections and sublease assumptions involve significant judgment, and are based on management's estimate of current and forecasted market conditions and are very sensitive and susceptible to change.

## 8. BALANCE SHEET DETAILS

Inventories are valued at the lower of cost or market with cost computed on a first-in, first-out ("FIFO") basis. Consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value. Inventories consist of the following (in thousands):

	<u>March 31,</u>	<u>December 31,</u>
	<u>2013</u>	<u>2012</u>
Raw materials	\$ 2,467	\$ 1,871
Work in process	1,364	799
Finished goods	93,720	97,290
	<u>\$ 97,551</u>	<u>\$ 99,960</u>

Prepaid expenses and other current assets consist of the following (in thousands):

	<u>March 31,</u>	<u>December 31,</u>
	<u>2013</u>	<u>2012</u>
Non-trade receivables	\$ 6,453	\$ 10,463
Prepaid expenses	36,164	38,404
Derivative assets	9,451	4,158
Other current assets	3,524	2,429
	<u>\$ 55,592</u>	<u>\$ 55,454</u>

Deferred revenues consist of the following (in thousands):

	<u>March 31,</u>	<u>December 31,</u>
	<u>2013</u>	<u>2012</u>
<b>Short-term:</b>		
Service	\$ 159,384	\$ 156,487
Product	145	595
License	1,400	1,400
	<u>\$ 160,929</u>	<u>\$ 158,482</u>
<b>Long-term:</b>		
Service	\$ 86,635	\$ 85,286
License	5,425	5,775
	<u>\$ 92,060</u>	<u>\$ 91,061</u>

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Other accrued liabilities consist of the following (in thousands):

	March 31,	December 31,
	2013	2012
Accrued expenses	\$16,181	\$ 19,165
Accrued co-op expenses	4,932	4,571
Restructuring reserves	5,597	5,347
Warranty obligations	9,715	10,475
Derivative liability	3,189	3,273
Employee stock purchase plan withholding	4,066	10,186
Other accrued liabilities	10,141	10,001
	<u>\$53,821</u>	<u>\$ 63,018</u>

## 9. GUARANTEES

### Warranty

The Company provides for the estimated costs of product warranties at the time revenue is recognized. The specific terms and conditions of those warranties vary depending upon the product sold. In the case of hardware manufactured by Polycorn, warranties generally start from the delivery date and continue for one year. Software products generally carry a 90-day warranty from the date of shipment. The Company's liability under warranties on software products is to provide a corrected copy of any portion of the software found not to be in substantial compliance with the agreed upon specifications. Factors that affect the Company's warranty obligation include product failure rates, material usage and service delivery costs incurred in correcting product failures. The Company assesses the adequacy of its recorded warranty liabilities every quarter and makes adjustments to the liability if necessary.

Changes in the warranty obligation, which is included as a component of "Other accrued liabilities" on the condensed consolidated balance sheets, during the periods, are as follows (in thousands):

	Three Months Ended	
	March 31,	March 31,
	2013	2012
Balance at beginning of period	\$10,475	\$10,577
Accruals for warranties issued during the period	3,619	4,139
Actual charges against warranty reserve during the period	(4,379)	(4,342)
Balance at end of period	<u>\$ 9,715</u>	<u>\$10,374</u>

### Deferred Services Revenue

The Company offers maintenance contracts for sale on most of its products which allow for customers to receive service and support in addition to, or subsequent to, the expiration of the contractual product warranty. The Company also provides managed services to its customers under contractual arrangements. The Company recognizes the maintenance and managed services revenue from these contracts over the life of the service contract.

Deferred services revenue of \$159.4 million and \$156.5 million is short-term and is included as a component of "Deferred revenue" as of March 31, 2013 and December 31, 2012, respectively, and \$86.6 million and \$85.3 million is long-term and is included in "Long-term deferred revenue" as of March 31, 2013 and December 31, 2012, respectively, on the condensed consolidated balance sheets. Changes in the three months ended March 31, 2013 and 2012 are as follows (in thousands):

	Three Months Ended	
	March 31,	March 31,
	2013	2012
Balance at beginning of period	\$241,773	\$212,178
Additions to deferred services revenue	87,752	89,281
Amortization of deferred services revenue	(83,506)	(76,145)
Balance at end of period	<u>\$246,019</u>	<u>\$225,314</u>

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The cost of providing these services for the three months ended March 31, 2013 and 2012 was \$36.5 million and \$33.0 million, respectively.

### *Officer and Director Indemnifications*

As permitted or required under Delaware law and to the maximum extent allowable under that law, the Company has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was serving, at the Company's request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification obligations is unlimited; however, the Company has a director and officer insurance policy that mitigates the Company's exposure and enables the Company to recover a portion of any future amounts paid. As a result of the Company's insurance policy coverage, the Company believes the estimated fair value of these indemnification obligations is minimal.

### *Other Indemnifications*

As is customary in the Company's industry, as provided for in local law in the U.S. and other jurisdictions, the Company's standard contracts provide remedies to its customers, such as defense, settlement, or payment of judgment for intellectual property claims related to the use of its products. From time to time, the Company indemnifies customers against combinations of loss, expense, or liability arising from various trigger events related to the sale and the use of its products and services. In addition, from time to time the Company also provides protection to customers against claims related to undiscovered liabilities, additional product liability or environmental obligations.

## **10. INVESTMENTS AND FAIR VALUE MEASUREMENTS:**

The Company had cash and cash equivalents of \$502.9 million and \$477.1 million at March 31, 2013 and December 31, 2012, respectively. Cash and cash equivalents consist of cash in banks, as well as highly liquid investments in money market funds, time deposits, savings accounts, commercial paper, U.S. government and agency securities, municipal securities and corporate debt securities. At March 31, 2013, the Company's long-term investments had contractual maturities of one to two years.

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In addition, the Company has short-term and long-term investments in debt securities which are summarized as follows (in thousands):

	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
<b>Balances at March 31, 2013:</b>				
<b>Investments—Short-term:</b>				
U.S. government securities	\$ 18,387	\$ 3	\$ —	\$ 18,390
U.S. government agency securities	80,837	31	—	80,868
Non-U.S. government securities	1,510	—	—	1,510
Corporate debt securities	79,160	27	(16)	79,171
Total investments – short-term	<u>\$179,894</u>	<u>\$ 61</u>	<u>\$ (16)</u>	<u>\$179,939</u>
<b>Investments—Long-term:</b>				
U.S. government securities	\$ 7,073	\$ 4	\$ —	\$ 7,077
U.S. government agency securities	19,521	20	(1)	19,540
Non-U.S. government securities	2,514	3	—	2,517
Corporate debt securities	16,523	2	(9)	16,516
Total investments – long-term	<u>\$ 45,631</u>	<u>\$ 29</u>	<u>\$ (10)</u>	<u>\$ 45,650</u>
<b>Balances at December 31, 2012:</b>				
<b>Investments—Short-term:</b>				
U.S. government securities	\$ 24,205	\$ 3	\$ —	\$ 24,208
U.S. government agency securities	101,036	39	(5)	101,070
Non-U.S. government securities	1,527	—	—	1,527
Corporate debt securities	70,386	20	(15)	70,391
Total investments – short-term	<u>\$197,154</u>	<u>\$ 62</u>	<u>\$ (20)</u>	<u>\$197,196</u>
<b>Investments—Long-term:</b>				
U.S. government securities	\$ 6,396	\$ 4	\$ —	\$ 6,400
U.S. government agency securities	22,145	17	(2)	22,160
Non-U.S. government securities	422	—	—	422
Corporate debt securities	21,368	—	(17)	21,351
Total investments – long-term	<u>\$ 50,331</u>	<u>\$ 21</u>	<u>\$ (19)</u>	<u>\$ 50,333</u>

As of March 31, 2013, the Company's total cash and cash equivalents and investments held in the United States totaled \$281.7 million with the remaining \$446.7 million held by various foreign subsidiaries outside of the United States.

### *U.S. Government Securities*

The Company's U.S. government securities are mostly comprised of direct U.S. Treasury obligations that are guaranteed by the U.S. government. To ensure that the investment portfolio is sufficiently diversified, the Company's investment policy requires that a certain percentage of the Company's portfolio be invested in these types of securities.

### *U.S. Government Agency Securities*

The Company's U.S. government agency securities are mostly comprised of U.S. government agency instruments, including mortgage-backed securities. To ensure that the investment portfolio is sufficiently diversified, the Company's investment policy requires that a certain percentage of the Company's portfolio be invested in these types of securities.

### *Non-U.S. Government Securities*

The Company's Non-U.S. government securities are mostly comprised of non-U.S. government instruments, including state, municipal and foreign government securities. To ensure that the investment portfolio is sufficiently diversified, the Company's investment policy allows a certain percentage of the Company's portfolio be invested in these types of securities.

### *Corporate Debt Securities*

The Company's corporate debt securities are comprised of publicly-traded domestic and foreign corporate debt securities. The Company does not purchase auction rate securities, and cash investments are in instruments that meet high quality credit rating standards, as specified in its investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issuer or type of instrument.

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### Unrealized Losses

The following table summarizes the fair value and gross unrealized losses of the Company's investments, including those that are categorized as cash equivalents, with unrealized losses aggregated by type of investment instrument and length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2013 and December 31, 2012 (in thousands):

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
<b>March 31, 2013:</b>						
U.S. government agencies securities	\$ 4,918	\$ (1)	\$ —	\$ —	\$ 4,918	\$ (1)
Corporate debt securities	51,982	(25)	—	—	51,982	(25)
Total investments	<u>\$ 56,900</u>	<u>\$ (26)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 56,900</u>	<u>\$ (26)</u>
<b>December 31, 2012:</b>						
U.S. government agency securities	\$ 21,768	\$ (7)	\$ —	\$ —	\$ 21,768	\$ (7)
Corporate debt securities	43,743	(32)	1,999	—	45,742	(32)
Total investments	<u>\$ 65,511</u>	<u>\$ (39)</u>	<u>\$ 1,999</u>	<u>\$ —</u>	<u>\$ 67,510</u>	<u>\$ (39)</u>

The Company reviews the individual securities in its portfolio to determine whether a decline in a security's fair value below the amortized cost basis is other-than-temporary. If the decline in fair value is considered to be other-than-temporary, the cost basis of the individual security is written down to its fair value as a new cost basis and the amount of the write-down is accounted for as a realized loss and included in earnings or other comprehensive income. During the three months ended March 31, 2013 and 2012, the Company determined that there were no investments in its portfolio that were other-than temporarily impaired.

### Private Company Investments

For strategic reasons the Company has made various investments in private companies. The private company investments are carried at cost and written down to their estimated net realizable value when indications exist that these investments have been impaired. The Company did not record such impairment charges during the three months ended March 31, 2013 and 2012. The cost of these investments at both March 31, 2013 and December 31, 2012 was \$2.0 million, and is recorded in "Other assets" in the Company's condensed consolidated balance sheets.

### Fair Value Measurements

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As the basis for considering such assumptions, a three-tier value hierarchy prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures certain financial assets and liabilities at fair value, including its marketable securities and foreign currency contracts.

The Company's cash and investment instruments are classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using inputs such as quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices for identical assets in active markets include money market funds and are generally classified within Level 1 of the fair value hierarchy.

The types of instruments valued based on other observable inputs include U.S. Treasury securities and other government agencies, corporate bonds and commercial paper. Such instruments are generally classified within Level 2 of the fair value hierarchy. Level 2 instruments are priced using quoted market prices for similar instruments or nonbinding market prices that are corroborated by observable market data. There have been no transfers between Level 1 and Level 2 during the three months ended March 31, 2013. The Company does not hold any investments classified as Level 3 as of March 31, 2013 and December 31, 2012.

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As of March 31, 2013, the Company's fixed income available-for-sale securities include U.S. Treasury obligations and other government agency instruments (54%), corporate bonds (27%), commercial paper (16%), non-U.S. Government securities (2%), and money market funds (1%). Included in available-for-sale securities is approximately \$32.0 million of cash equivalents, which consist of investments with original maturities of three months or less and include money market funds.

The principal market where the Company executes its foreign currency contracts is the retail market in an over-the-counter environment with a relatively high level of price transparency. The market participants and the Company's counterparties are large money center banks and regional banks. The Company's foreign currency contracts valuation inputs are based on quoted prices and quoted pricing intervals from public data sources such as spot rates, interest rate differentials and credit default rates, which do not involve management judgment. These contracts are typically classified within Level 2 of the fair value hierarchy. The fair value of the Company's marketable securities and foreign currency contracts was determined using the following inputs at March 31, 2013 and December 31, 2012 (in thousands):

<u>Description</u>	<u>Total</u>	<u>Fair Value Measurements at March 31, 2013 Using</u>	
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
<b>Assets:</b>			
Fixed income available-for-sale securities (a)	\$257,481	\$ 2,670	\$ 254,811
Foreign currency forward contracts (b)	\$ 9,451	\$ —	\$ 9,451
<b>Liabilities:</b>			
Foreign currency forward contracts (c)	\$ 3,189	\$ —	\$ 3,189
<b>Fair Value Measurements at December 31, 2012 Using</b>			
<u>Description</u>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
<b>Assets:</b>			
Fixed income available-for-sale securities (a)	\$260,792	\$ 795	\$ 259,997
Foreign currency forward contracts (b)	\$ 4,158	\$ —	\$ 4,158
<b>Liabilities:</b>			
Foreign currency forward contracts (c)	\$ 3,273	\$ —	\$ 3,273

- (a) Included in cash and cash equivalents, and short and long-term investments on the Company's condensed consolidated balance sheets.  
(b) Included in short-term derivative assets as prepaid expenses and other current assets on the Company's condensed consolidated balance sheets.  
(c) Included in short-term derivative liabilities as other accrued liabilities on the Company's condensed consolidated balance sheets.

The Company's current accounting policy and practice is not to offset derivative assets and liabilities in its condensed consolidated balance sheets. See Note 11 of Notes to Condensed Consolidated Financial Statements.

## 11. FOREIGN CURRENCY DERIVATIVES

The Company maintains a foreign currency risk management program that is designed to reduce the volatility of the Company's economic value from the effects of unanticipated currency fluctuations. International operations generate both revenues and costs denominated in foreign currencies. The Company's policy is to hedge significant foreign currency revenues and costs to improve margin visibility and reduce earnings volatility associated with unexpected changes in currency.

### *Non-Designated Hedges*

The Company hedges its net foreign currency monetary assets and liabilities primarily resulting from foreign currency denominated revenues and expenses with foreign exchange forward contracts to reduce the risk that the Company's earnings and cash flows will be adversely affected by changes in foreign currency exchange rates. These derivative instruments are carried at fair value

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with changes in the fair value recorded as interest and other income (expense), net. These derivative instruments do not subject the Company to material balance sheet risk due to exchange rate movements because gains and losses on these derivatives are intended to offset remeasurement gains and losses on the hedged assets and liabilities. The Company executes non-designated foreign exchange forward contracts primarily denominated in Euros, British Pounds, Israeli Shekels, Brazilian Reals, Japanese Yen and Mexican Pesos.

The following table summarizes the Company's notional position by currency, and approximate U.S. dollar equivalent, at March 31, 2013 of the outstanding non-designated hedges (foreign currency and dollar amounts in thousands):

	Original Maturities of 360 Days or Less			Original Maturities of Greater than 360 Days		
	Foreign Currency	USD Equivalent	Positions	Foreign Currency	USD Equivalent	Positions
Brazilian Real	3,718	\$ 1,846	Buy	—	\$ —	—
Brazilian Real	7,128	\$ 3,552	Sell	—	\$ —	—
Euro	27,817	\$ 35,660	Buy	9,463	\$ 12,449	Buy
Euro	56,298	\$ 72,895	Sell	33,555	\$ 44,751	Sell
British Pound	1,743	\$ 2,649	Buy	6,667	\$ 10,635	Buy
British Pound	3,792	\$ 5,752	Sell	10,488	\$ 16,622	Sell
Israeli Shekel	18,415	\$ 5,045	Buy	39,388	\$ 10,157	Buy
Israeli Shekel	45,381	\$ 12,348	Sell	—	\$ —	—
Japanese Yen	292,756	\$ 3,110	Buy	—	\$ —	—
Japanese Yen	622,571	\$ 6,677	Sell	—	\$ —	—
Mexican Peso	9,581	\$ 778	Buy	—	\$ —	—
Mexican Peso	18,668	\$ 1,483	Sell	—	\$ —	—

The following table shows the effect of the Company's non-designated hedges in the condensed consolidated statements of operations for the three months ended March 31, 2013 and 2012 (in thousands):

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		March 31,	March 31,
		2013	2012
Foreign exchange contracts	Interest and other income (expense), net	\$ 2,333	\$ (1,646)

### Cash Flow Hedges

The Company's foreign exchange risk management program objective is to reduce volatility in the Company's economic value from unanticipated foreign currency fluctuations. The Company designates forward contracts as cash flow hedges of foreign currency revenues and expenses, primarily the Euro, British Pound and Israeli Shekel. All foreign exchange contracts are carried at fair value on the condensed consolidated balance sheets and the maximum duration of foreign exchange forward contracts does not exceed thirteen months. Speculation is prohibited by policy.

To receive hedge accounting treatment under ASC 815, *Derivatives and Hedging*, all cash flow hedging relationships are formally designated at hedge inception, and tested both prospectively and retrospectively to ensure the forward contracts are highly effective in offsetting changes to future cash flows on the hedged transactions. The Company records effective spot to spot changes in these cash flow hedges in cumulative other comprehensive income until they are reclassified to revenue, cost of revenue or operating expenses together with the hedged transaction. The time value on forward contracts is excluded from effectiveness testing and recorded to interest and other income (expense), net over the life of the contract together with any ineffective portion of the hedge.

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The following tables show the effect of the Company's derivative instruments designated as cash flow hedges in the condensed consolidated statements of operations for the three months ended March 31, 2013 and 2012 (in thousands):

Three Months Ended March 31, 2013:	Gain or (Loss) Recognized in OCI—Effective Portion	Location of Gain or (Loss) Reclassified from OCI into Income—Effective Portion	Gain or (Loss)		Recognized— Ineffective Portion and Amount Excluded from Effectiveness Testing (a)
			Reclassified from OCI into Income— Effective Portion	Location of Gain or (Loss) Recognized— Ineffective Portion and Amount Excluded from Effectiveness Testing	
Foreign exchange contracts	\$ 2,957	Product revenues	\$ 627	Interest and other income (expense), net	\$ —
		Cost of revenues	—		
		Sales and marketing	178		
		Research and development	(103)		
		General and administrative	12		
Total	<u>\$ 2,957</u>		<u>\$ 714</u>		<u>\$ —</u>
<b>Three Months Ended March 31, 2012:</b>					
Foreign exchange contracts	\$ (1,561)	Product revenues	\$ 2,376	Interest and other income (expense), net	\$ (211)
		Cost of revenues	(232)		
		Sales and marketing	(484)		
		Research and development	(301)		
		General and administrative	(232)		
Total	<u>\$ (1,561)</u>		<u>\$ 1,127</u>		<u>\$ (211)</u>

(a) For both the three months ended March 31, 2013 and 2012, there were no gains or losses recorded for the ineffective portion. For the three months ended March 31, 2012, the loss recorded related to the excluded time value portion of the hedge was immaterial, and there was no such loss recorded in the three months ended March 31, 2013.

As of March 31, 2013, the Company estimated that all values reported in accumulated other comprehensive income (loss) will be reclassified to income within the next twelve months.

In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, the related hedge gains and losses on the cash flow hedge would be immediately reclassified to interest and other income (expense), net on the consolidated statements of operations. For the three months ended March 31, 2013 and 2012, there were no such gains or losses.

The following table summarizes the Company's notional position by currency, and approximate U.S. dollar equivalent, at March 31, 2013 of the outstanding cash flow hedges, all of which are carried at fair value on the condensed consolidated balance sheets (foreign currency and dollar amounts in thousands):

	Original Maturities of Greater than 360 Days		
	Foreign Currency	USD Equivalent	Positions
Euro	25,421	\$ 33,281	Buy
Euro	60,176	\$ 80,416	Sell
British Pound	23,463	\$ 37,088	Buy
British Pound	18,172	\$ 28,802	Sell
Israeli Shekel	79,988	\$ 20,601	Buy

There were no outstanding cash flow hedge contracts with original maturities of 360 days or less at March 31, 2013. The estimates of fair value are based on applicable and commonly quoted prices and prevailing financial market information as of March 31, 2013 and December 31, 2012. See Note 10 for additional information on the fair value measurements for all financial assets and liabilities, including derivative assets and derivative liabilities that are measured at fair value in the condensed consolidated financial statements on a recurring basis.

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The following table shows the Company's derivative instruments measured at gross fair value as reflected in the condensed consolidated balance sheets as of March 31, 2013 and December 31, 2012 (in thousands):

	Fair Value of Derivatives Designated as Hedge Instruments		Fair Value of Derivatives Not Designated as Hedge Instruments	
	March 31,	December 31,	March 31,	December 31,
	2013	2012	2013	2012
Derivative assets (a):				
Foreign exchange contracts	\$ 5,554	\$ 2,992	\$ 3,897	\$ 1,166
Derivative liabilities (b):				
Foreign exchange contracts	\$ 2,185	\$ 1,760	\$ 1,004	\$ 1,513

(a) All derivative assets are recorded as prepaid and other current assets in the condensed consolidated balance sheets.

(b) All derivative liabilities are recorded as other accrued liabilities in the condensed consolidated balance sheets.

### Offsetting Derivative Assets and Liabilities

The Company has entered into master netting arrangements with each of its derivative counterparties. These arrangements afford the right to net derivative assets against liabilities with the same counterparty. Under certain default provisions, the Company has the right to setoff any other amounts payable to the payee whether or not arising under this agreement. As a result of the netting provisions, the Company's maximum amount of loss under derivative transactions due to credit risk is limited to the net amounts due from the counterparties under the derivative contracts. Although netting is permitted, it is currently the Company's policy and practice to record all derivative assets and liabilities on a gross basis in the condensed consolidated balance sheets.

The following table sets forth the offsetting of derivative assets as of March 31, 2013 and December 31, 2012 (in thousands):

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Of Assets Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Pledged	Net Amount
<b>As of March 31, 2013:</b>						
Barclays	\$ 5,628	\$ —	\$ 5,628	\$ (2,241)	\$ —	\$3,387
Bank of America	3,596	—	3,596	(946)	—	2,650
HSBC	66	—	66	—	—	66
Morgan Stanley	161	—	161	(2)	—	159
Total	<u>\$ 9,451</u>	<u>\$ —</u>	<u>\$ 9,451</u>	<u>\$ (3,189)</u>	<u>\$ —</u>	<u>\$6,262</u>
<b>As of December 31, 2012:</b>						
Barclays	\$ 1,961	\$ —	\$ 1,961	\$ (1,408)	\$ —	\$ 553
Bank of America	2,008	—	2,008	(1,718)	—	290
HSBC	—	—	—	—	—	—
Morgan Stanley	189	—	189	(101)	—	88
Total	<u>\$ 4,158</u>	<u>\$ —</u>	<u>\$ 4,158</u>	<u>\$ (3,227)</u>	<u>\$ —</u>	<u>\$ 931</u>

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The following table sets forth the offsetting of derivative liabilities as of March 31, 2013 and December 31, 2012 (in thousands):

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts Of Liabilities Presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Pledged	Net Amount
<b>As of March 31, 2013:</b>						
Barclays	\$ 2,241	\$ —	\$ 2,241	\$ (2,241)	\$ —	\$ —
Bank of America	946	—	946	(946)	—	—
HSBC	—	—	—	—	—	—
Morgan Stanley	2	—	2	(2)	—	—
Total	<u>\$ 3,189</u>	<u>\$ —</u>	<u>\$ 3,189</u>	<u>\$ (3,189)</u>	<u>\$ —</u>	<u>\$ —</u>
<b>As of December 31, 2012:</b>						
Barclays	\$ 1,408	\$ —	\$ 1,408	\$ (1,408)	\$ —	\$ —
Bank of America	1,718	—	1,718	(1,718)	—	—
HSBC	46	—	46	—	—	46
Morgan Stanley	101	—	101	(101)	—	—
Total	<u>\$ 3,273</u>	<u>\$ —</u>	<u>\$ 3,273</u>	<u>\$ (3,227)</u>	<u>\$ —</u>	<u>\$ 46</u>

## 12. STOCKHOLDERS' EQUITY

### Share Repurchase Program

From time to time, the Company's Board of Directors has approved plans under which the Company may at its discretion purchase shares of its common stock in the open market. During the three months ended March 31, 2013, the Company repurchased approximately 3.4 million shares of common stock in the open market for \$34.2 million of cash. The Company did not purchase any shares of common stock from the open market during the three months ended March 31, 2012. As of March 31, 2013, the Company was authorized to purchase up to an additional \$39.1 million of shares in the open market under the current share repurchase plan.

### Accumulated Other Comprehensive Income

The following table summarizes the changes in accumulated other comprehensive income, net of tax, by component for the three months ended March 31, 2013 (in thousands). The tax effects were not shown separately, as the impacts were not material.

	Unrealized	Unrealized	Foreign	Total
	Gains and Losses on Cash Flow	Gains and Losses on Available-for-	Currency Translation	
Three Months Ended March 31, 2013	Hedges	Sale Securities		
Balance as of December 31, 2012	\$ 1,014	\$ 2	\$ 3,180	\$4,196
Other comprehensive income before reclassifications	2,957	(12)	64	3,009
Amounts reclassified from accumulated other comprehensive income (a)	(714)	66	—	(648)
Net current-period other comprehensive income	2,243	54	64	2,361
Balance as of March 31, 2013	<u>\$ 3,257</u>	<u>\$ 56</u>	<u>\$ 3,244</u>	<u>\$6,557</u>

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- (a) See Note 11 of Notes to Condensed Consolidated Financial Statements for details of gains and losses, net of taxes, reclassified out of accumulated other comprehensive income into net income related to cash flow hedges and each line item of net income affected by the reclassification. Gains and losses related to available-for-sale securities were reclassified into “Other income and (expense), net” in the condensed consolidated statement of operations for the three months ended March 31, 2013, net of taxes.

### 13. STOCK-BASED EMPLOYEE BENEFIT PLANS

#### *Stock-Based Compensation Expense*

The following table summarizes stock-based compensation expense recorded for the three months ended March 31, 2013 and 2012 and its allocation within the condensed consolidated statements of operations (in thousands):

	Three Months Ended	
	March 31,	March 31,
	2013	2012
Cost of sales – product	\$ 861	\$ 958
Cost of sales – service	1,476	1,339
Stock-based compensation expense included in cost of sales	<u>2,337</u>	<u>2,297</u>
Sales and marketing	6,636	7,645
Research and development	4,721	4,547
General and administrative	4,077	3,263
Stock-based compensation expense included in operating expenses	<u>15,434</u>	<u>15,455</u>
Stock-based compensation expense related to employee equity awards and employee stock purchases	17,771	17,752
Tax benefit	<u>3,895</u>	<u>2,464</u>
Stock-based compensation expense related to employee equity awards and employee stock purchases, net of tax	<u>\$13,876</u>	<u>\$15,288</u>

Stock-based compensation expense is not allocated to segments because it is separately managed at the corporate level. No stock-based compensation was capitalized during the three months ended March 31, 2013 and 2012 due to these amounts being immaterial.

#### *Valuation Assumptions*

The Company did not grant any stock options during the three months ended March 31, 2013 and 2012. For purchase rights granted pursuant to the Company’s employee stock purchase plan (“ESPP”), the estimated fair value per share of employee stock purchase rights for the two-year offering period commencing on February 1, 2013 ranged from \$2.93 to \$4.57, compared to fair value

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per share from \$6.43 to \$8.40 for the two-year offering period commencing on February 1, 2012. The fair value of each employee stock purchase right grant is estimated on the date of grant using the Black-Scholes option valuation model and is recognized as expense using the graded vesting method using the following assumptions:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Expected volatility	44.76-50.55%	48.27-60.42%
Risk-free interest rate	0.11-0.27%	0.06-0.23%
Expected dividends	0.0%	0.0%
Expected life (yrs)	0.5-2.0	0.5-2.0

The Company computed its expected volatility assumption based on blended volatility (50% historical volatility and 50% implied volatility). The selection of the blended volatility assumption was based upon the Company's assessment that blended volatility is more representative of the Company's future stock price trends as it weighs in the longer term historical volatility with the near term future implied volatility.

The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected life of the Company's employee stock purchases.

The dividend yield assumption is based on the Company's history of not paying dividends and the resultant future expectation of dividend payouts.

The expected life of employee stock purchase rights represents the contractual terms of the underlying program.

As the stock-based compensation expense recognized in the condensed consolidated statement of operations is based on awards ultimately expected to vest, such amounts have been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

### ***Performance Shares and Restricted Stock Units***

The Compensation Committee of the Board of Directors may also grant performance shares and restricted stock units under the 2011 Equity Incentive Plan to officers, to non-employee directors and to certain other employees or consultants as a component of the Company's broad-based equity compensation program. Performance shares represent a commitment by the Company to deliver shares of Polycom common stock at a future point in time, subject to the fulfillment by the Company of pre-defined performance criteria. Such awards will be earned only if performance goals over the performance periods established by or under the direction of the Compensation Committee are met. The number of performance shares subject to vesting is determined at the end of a given performance period. Generally, if the performance criteria are deemed achieved, performance shares will vest from one to three years from the anniversary of the grant date. Restricted stock units are time-based awards that generally vest over a period of one to three years from the date of grant.

The Company grants performance shares ("PSU") which contain a market condition based on Total Shareholder Return ("TSR") and which measure the Company's relative performance against the NASDAQ Composite Index. The performance shares will be delivered in common stock at the end of the vesting period based on the Company's actual performance compared to the target performance criteria and may equal from zero percent (0%) to one hundred fifty percent (150%) of the target award. Stock-based compensation expense for these performance shares is recognized using the graded vesting method. During the three months ended March 31, 2013 and 2012, the Company granted 1,217,185 and 996,826, respectively, performance shares to certain employees and executives, at a weighted average fair value of \$8.76 and \$23.23 per share, respectively. The TSR performance of those PSU grants is measured against the NASDAQ Composite Index and the grants are generally divided evenly over three annual performance periods commencing with calendar year 2013.

The Company also granted restricted stock units ("RSU") during the three months ended March 31, 2013 and 2012. The fair value of restricted stock units is based on the closing market price of the Company's common stock on the date of grant. The awards generally vest over one to three years in equal annual installments on each anniversary of the date of grant and will be delivered in common stock at the end of each vesting period. Stock-based compensation expense for these restricted stock units is recognized using the graded vesting method. During the three months ended March 31, 2013 and 2012, the Company granted 2,299,772 and 2,049,759 restricted stock units at a weighted average fair value of \$9.38 and \$21.36 per share, respectively. Further, during the three months ended March 31, 2013, the Compensation Committee of the Board of Directors approved awards totaling 1,760,999 RSUs to certain officers, executives and employees. These RSU awards will be granted on the date of the Company's annual meeting of stockholders, currently scheduled for June 5, 2013, subject to the employees' continued employment through the grant date, and only if the Company's proposal to increase the shares available under its 2011 Equity Incentive Plan is approved by the stockholders.

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Non-employee directors currently receive annual awards of RSU's. The RSU's vest quarterly in four equal installments over approximately one year from the date of grant. The fair value of these awards is the fair market value of the Company's common stock on the date of grant. Stock-based compensation expense for these awards is generally amortized over six months from the date of grant due to voluntary termination provisions contained in the underlying agreements. During the three months ended March 31, 2013 and 2012, there were no RSUs granted to non-employee directors.

### *Employee Stock Purchase Plan*

Under the current ESPP, the Company can grant stock purchase rights to all eligible employees during a two-year offering period with purchase dates at the end of each six-month purchase period (each January and July). Participants lock in a purchase price per share at the beginning of the offering period upon plan enrollment. If the stock price on any subsequent offering period enrollment date is less than the lock-in price, the ESPP has a reset feature that automatically withdraws and re-enrolls participants into a new two-year offering period. Further, the ESPP permits participants to increase or decrease contribution elections at the end of a purchase period for future purchase periods within the same offering period. Shares are purchased through employees' payroll deductions, currently up to a maximum of 15% of employees' compensation, at purchase prices equal to 85% of the lesser of the fair market value of the Company's common stock at either the date of the employee's entrance to the offering period or the purchase date. No participant may purchase more than \$25,000 worth of common stock in any one calendar year period, or 10,000 shares of common stock on any one purchase date.

During the three months ended March 31, 2013 and 2012, 1,634,299 and 748,496 shares were purchased, respectively. At March 31, 2013, there were 6,529,124 shares available to be issued under the employee stock purchase plan. The stock-based compensation cost recognized in connection with the employee stock purchase plan during the three months ended March 31, 2013 and 2012 was \$4.2 million and \$5.2 million, respectively.

In the three months ended March 31, 2013 and 2012, the Company modified the terms of certain existing awards under its ESPP. In the quarter ended March 31, 2013, the modification was due to an increase in contribution elections for future purchase periods by certain participants enrolled in the offering period started on August 1, 2012 and resulted in a cumulative \$0.7 million of incremental expenses to be recognized over the vesting term. In the quarter ended March 31, 2012, the modification was primarily as a result of the stock price as of the new offering period date being lower than it was on the initial enrollment date, which triggered the reset and rollover feature of the ESPP, and incurred a resultant cumulative \$9.3 million of incremental expenses to be recognized over the vesting term. Approximately \$3.0 million of the incremental expenses was recognized in the three months ended March 31, 2013 related to modifications triggered by both the reset and rollover feature and increases in contribution. Approximately \$1.2 million of the incremental expenses was recognized in the three months ended March 31, 2012 related to the modification due to the reset and rollover feature.

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### 14. COMPUTATION OF NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the additional dilution from potential issuances of common stock, such as stock issuable pursuant to the exercise of outstanding stock options. Potentially dilutive shares are excluded from the computation of diluted net income per share when their effect is antidilutive.

A reconciliation of the numerator and denominator of basic and diluted net income per share is provided as follows (in thousands except per share amounts):

	Three Months Ended	
	March 31, 2013	March 31, 2012
Numerator—basic and diluted net income per share:		
Net income from continuing operations	2,117	12,349
Income from discontinued operations, net of taxes	—	2,753
Gain from sale of discontinued operations, net of taxes	459	—
Net income	<u>\$ 2,576</u>	<u>\$ 15,102</u>
Denominator—basic and diluted net income per share:		
Weighted average shares used to compute basic net income per share	176,079	177,427
Effect of dilutive common stock equivalents:		
Stock options to purchase common stock	10	619
Restricted common stock award, performance shares and stock purchase rights	3,051	2,442
Total shares used in calculation of diluted net income per share continuing operations	<u>179,140</u>	<u>180,488</u>
Basic net income per share:		
Net income per share from continuing operations	\$ 0.01	\$ 0.07
Income per share from discontinued operations, net of taxes	—	\$ 0.02
Gain from sale of discontinued operations, net of taxes	—	—
Basic net income per share	<u>\$ 0.01</u>	<u>\$ 0.09</u>
Diluted net income per share:		
Net income per share from continuing operations	\$ 0.01	\$ 0.07
Income per share from discontinued operations, net of taxes	—	0.02
Gain from sale of discontinued operations, net of taxes	—	—
Diluted net income per share:	<u>\$ 0.01</u>	<u>\$ 0.08</u>

Earnings per share amounts for continuing operations, discontinued operations, gain from sale of discontinued operations, and net income, as presented in the condensed consolidated statements of operations are calculated individually and may not sum due to rounding differences.

Diluted shares outstanding include the dilutive effect of in-the-money options which is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount that the employee must pay for exercising stock options, the amount of compensation cost for future services that the Company has not yet recognized, and the amount of tax benefit that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares. For the three months ended March 31, 2013 and 2012, approximately 1.7 million and 1.2 million shares, respectively, relating to potentially dilutive securities, primarily from stock options and restricted common stock awards, were excluded from the denominator in the computation of diluted net income per share because their inclusion would be anti-dilutive.

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### 15. BUSINESS SEGMENT INFORMATION

The Company conducts its business globally and is managed geographically in three segments: (1) Americas, which consist of North, Central and Latin Americas, (2) Europe, Middle East and Africa (“EMEA”) and (3) Asia Pacific (“APAC”). The segments are determined in accordance with how management views and evaluates the Company’s business and allocates its resources, and based on the criteria as outlined in the authoritative guidance. The revenue and operating results of each segment for the quarter ended March 31, 2012 have been revised to exclude the results from discontinued operations, which primarily impacted the Americas and EMEA segments and to a lesser extent its APAC segment. Effective January 1, 2013, the Company began to allocate certain services costs previously reported within the Americas segment into both the EMEA and APAC segments in order to more appropriately align costs among the segments with the associated revenues. As such, all prior periods reported were also reclassified to conform to the current year presentation.

#### *Segment Revenue and Profit*

Segment revenues are attributed to a theater based on the ordering location of the customer. A significant portion of each segment’s expenses arise from shared services and infrastructure that Polycom has historically allocated to the segments in order to realize economies of scale and to use resources efficiently. These expenses include information technology services, facilities and other infrastructure costs.

#### *Segment Data*

The results of the reportable segments are derived directly from Polycom’s management reporting system. The results are based on Polycom’s method of internal reporting and are not reported in conformity with accounting principles generally accepted in the United States. Management measures the performance of each segment based on several metrics, including contribution margin as defined below. For internal reporting purposes and determination of segment contribution margins, geographic segment revenues may differ slightly from actual geographic revenues due to internal revenue allocations between the Company’s segments.

Asset data, with the exception of gross accounts receivable, is not reviewed by management at the segment level.

Financial information for each reportable geographical segment as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012, based on the Company’s internal management reporting system and as utilized by the Company’s Chief Executive Officer who is its Chief Operating Decision Maker (“CODM”), is as follows (in thousands) :

	<u>Americas</u>	<u>EMEA</u>	<u>APAC</u>	<u>Total</u>
For the three months ended March 31, 2013:				
Revenue	\$170,981	\$89,092	\$78,679	\$338,752
<i>% of total revenue</i>	51%	26%	23%	100%
Contribution margin	69,229	37,560	30,845	137,634
<i>% of segment revenue</i>	40%	42%	39%	41%
For the three months ended March 31, 2012:				
Revenue	\$165,226	\$93,301	\$87,183	\$345,710
<i>% of total revenue</i>	48%	27%	25%	100%
Contribution margin	69,136	39,100	35,199	143,435
<i>% of segment revenue</i>	42%	42%	40%	41%
As of March 31, 2013: Gross accounts receivable	92,320	64,282	63,103	219,705
<i>% of total gross accounts receivable</i>	42%	29%	29%	100%
As of December 31, 2012: Gross accounts receivable	100,494	67,529	71,128	239,151
<i>% of total gross accounts receivable</i>	42%	28%	30%	100%

Segment contribution margin includes all geographic segment revenues less the related cost of sales and direct sales and marketing expenses. Management allocates some infrastructure costs such as facilities and IT costs in determining segment contribution margin. Contribution margin is used, in part, to evaluate the performance of, and allocate resources to, each of the segments. Certain operating expenses are not allocated to segments because they are separately managed at the corporate level. These unallocated costs include corporate manufacturing costs, sales and marketing costs other than direct sales and marketing expenses, research and development expenses, general and administrative costs, such as legal and accounting, stock-based compensation costs, acquisition-related costs, amortization of purchased intangibles, restructuring costs and interest and other income (expense), net.

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The reconciliation of segment information to Polycom consolidated totals is as follows (in thousands):

	Three Months Ended	
	March 31, 2013	March 31, 2012
Segment contribution margin	\$ 137,634	\$143,435
Corporate and unallocated costs	(107,705)	(99,392)
Stock-based compensation	(17,771)	(17,752)
Effect of stock-based compensation cost on warranty expense	(157)	(188)
Acquisition-related costs	(3,323)	(1,914)
Amortization of purchased intangibles	(3,750)	(4,236)
Restructuring costs	(5,423)	(2,923)
Severance costs associated with CFO retirement	—	(115)
Legal costs associated with former officer indemnification	—	(929)
Interest and other income (expense), net	(759)	(1,787)
Income (loss) from continuing operations before provision for income taxes	<u>\$ (1,254)</u>	<u>\$ 14,199</u>

  

	March 31, 2013	December 31, 2012
	Gross accounts receivables	\$219,705
Returns and related reserves	(37,098)	(41,576)
Allowance for doubtful accounts	(2,706)	(2,921)
Total trade receivables, net	<u>\$179,901</u>	<u>\$ 194,654</u>

The following table summarizes the Company's revenues by groups of similar products and services as follows (in thousands):

	Three Months Ended	
	March 31, 2013	March 31, 2012
Net Revenues:		
UC group systems	\$232,426	\$240,489
UC personal devices	49,246	45,452
UC platform	57,080	59,769
Total	<u>\$338,752</u>	<u>\$345,710</u>

During the three months ended March 31, 2013 and 2012, one customer from the Americas segment, ScanSource Communications, accounted for 17% and 15% of the Company's revenues, respectively. At March 31, 2013 and December 31, 2012, no single customer accounted for more than 10% of gross accounts receivable.

## 16. INCOME TAXES

The following table presents the income tax expense (benefit) from continuing operations and the effective tax rates:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Income tax expense (benefit) from continuing operations (in thousands)	\$ (3,371)	\$ 1,850
Effective tax rate	268.8%	13.0%

For the three months ended March 31, 2013, the Company recorded an income tax benefit of \$3.4 million primarily due to impacts associated with proportional earnings from the Company's operations in lower tax jurisdictions, recurring permanent

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adjustments, and discrete benefits recorded during the quarter, \$2.2 million of which was due to the reinstatement of the federal research and development tax credit signed into law on January 2, 2013, but retroactive to 2012, and \$0.8 million of which was due to tax benefits realized on disqualifying dispositions of stock from the Company's employee stock purchase plan. The Company's effective tax rate for the three months ended March 31, 2013 and 2012 was 268.8% and 13.0%, respectively. The effective tax rate differs from the U.S. federal statutory rate of 35% due primarily to favorable tax rates associated with certain earnings from the Company's operations in lower-tax jurisdictions throughout the world, partially offset by non-deductible stock-based compensation expense.

As of March 31, 2013, the amount of gross unrecognized tax benefits was \$23.7 million, all of which would affect the Company's effective tax rate if realized. The Company recognizes interest income and interest expense and penalties on tax overpayments and underpayments within income tax expense. As of March 31, 2013 and 2012, the Company had approximately \$1.5 million and \$2.2 million, respectively, of accrued interest and penalties related to uncertain tax positions. The Company anticipates that, except for \$2.5 million in uncertain tax positions that may be reduced related to the lapse of various statutes of limitation, there will be no material changes in uncertain tax positions in the next 12 months.

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### Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*YOU SHOULD READ THE FOLLOWING DISCUSSION AND ANALYSIS IN CONJUNCTION WITH OUR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES. EXCEPT FOR HISTORICAL INFORMATION, THE FOLLOWING DISCUSSION CONTAINS FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934. WHEN USED IN THIS REPORT, THE WORDS "MAY," "BELIEVE," "COULD," "ANTICIPATE," "WOULD," "MIGHT," "PLAN," "EXPECT," "WILL," "INTEND," "POTENTIAL," "OBJECTIVE," "STRATEGY," "SHOULD," "DESIGNED," AND SIMILAR EXPRESSIONS OR THE NEGATIVE OF THESE TERMS ARE INTENDED TO IDENTIFY FORWARD LOOKING STATEMENTS. THESE FORWARD LOOKING STATEMENTS, INCLUDING, AMONG OTHER THINGS, STATEMENTS REGARDING OUR UNIQUE POSITION AND ANTICIPATED PRODUCTS, IMPORTANT DRIVERS, CUSTOMER AND GEOGRAPHIC REVENUE LEVELS AND MIX, GROSS MARGINS, OPERATING COSTS AND EXPENSES AND OUR CHANNEL INVENTORY LEVELS, INVOLVE RISKS AND UNCERTAINTIES. OUR ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY FROM THOSE PROJECTED IN THE FORWARD LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE FUTURE RESULTS TO DIFFER MATERIALLY FROM THOSE DISCUSSED IN THE FORWARD LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN "RISK FACTORS" IN THIS DOCUMENT, AS WELL AS OTHER INFORMATION FOUND IN THE DOCUMENTS WE FILE FROM TIME TO TIME WITH THE SECURITIES AND EXCHANGE COMMISSION, INCLUDING THE ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012.*

#### Overview

We are a global leader in open, standards-based unified communications and collaboration ("UC&C") solutions for voice and video collaboration. Our solutions are powered by the Polycom® RealPresence® Platform, comprehensive software infrastructure and rich application programming interfaces ("APIs") that interoperate with a broad set of communication, business, mobile, and cloud applications and devices to deliver secure face-to-face video collaboration across different environments. With Polycom® RealPresence® video and voice solutions, from infrastructure to endpoints for all environments, people all over the world can collaborate face-to-face without being in the same physical location. Individuals and teams can connect, communicate, and collaborate through a high-definition visual experience from their desktops, meeting rooms, classrooms, home offices, mobile devices, web browsers, and specialized solutions such as video carts for healthcare applications. By removing the barriers of distance and time, connecting experts to where they are needed most, and creating greater trust and understanding through visual connection, we enable people to make better decisions faster and to increase their productivity while saving time and money and being environmentally responsible.

We sell our solutions globally through a high-touch sales model that leverages our broad network of channel partners, including distributors, value-added resellers, system integrators, leading communications services providers, and retailers. We manufacture our products through an outsourced model optimized for quality, reliability, and fulfillment agility.

We believe important drivers for the adoption of Polycom UC&C solutions include:

- growth of video as a preferred method of communication everywhere,
- increasing presence of video on the desktop,
- growth of video-capable mobile devices (including tablets and smartphones),
- expansion of social business tools with integrated web-based video collaboration,
- adoption of UC&C by small and medium businesses and governments globally,
- growth of the number of teleworkers globally,
- emergence of Bring Your Own Device (BYOD) programs in businesses of all sizes,
- demand for UC&C solutions for business-to-business communications and the move of consumer applications into the business space, and
- continued commitment by organizations and individuals to reduce their carbon footprint and expenses by choosing remote connectivity over travel.

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We believe we are uniquely positioned as the UC&C ecosystem partner of choice through our strategic partnerships, support of open standards, innovative technology and customer-centric go-to-market capabilities.

Revenues for the three months ended March 31, 2013 were \$338.8 million, a decrease of \$7.0 million, or 2%, from the same period of 2012. On a year-over-year basis, our product revenues decreased 6% while our service revenues increased 10%. The decrease in product revenues was primarily a result of lower sales of our UC group systems and, to a lesser extent, UC platform products, partially offset by increased sales of our UC personal devices products. The increase in service revenues was driven primarily by increased maintenance service revenues on a larger installed base and increased maintenance service renewals year-over-year. From a segment perspective, the Americas segment revenues accounted for 51% of our revenues in the first quarter of 2013 and increased by 3% as compared to the first quarter of 2012. Our EMEA and APAC segment revenues accounted for 26% and 23% of our revenues, respectively, in the first quarter of 2013 and decreased by 5% and 10%, respectively, as compared to the first quarter of 2012. Total product revenues declined year-over-year in our EMEA and APAC segments, but grew in our Americas segment. Services revenues increased year-over-year in all of our segments. See Note 15 of Notes to Condensed Consolidated Financial Statements for further information on our segments, including a summary of our segment revenues, segment contribution margin and segment gross accounts receivable. The discussion of results of operations at the consolidated level is also followed by a discussion of results of operations by segment for the three months ended March 31, 2013 and 2012.

While we generally experience slower sequential revenue growth in the first quarter, we also experienced a year-over-year revenue decrease in the quarter ended March 31, 2013. We believe the decrease in revenues was due to several factors, including a company and industry transition from point products to solution selling which resulted in some customers requiring additional time to consider a more UC&C centric strategy versus point product or end point only deployments; slower public sector spending in North America; lower revenues in our EMEA segment impacted by economic conditions in Europe; and continuing slowdown of government spending in other key geographies such as China.

Operating margins decreased by 5 percentage points in the three months ended March 31, 2013 as compared to the same period in 2012, primarily due to operating expenses increasing in absolute dollars by 5% while revenues decreased by 2% year-over-year. Operating expenses increased as a percentage of revenues to 59% in the three months ended March 31, 2013 from 55% in the same period in 2012. The increase in operating expenses was primarily due to increased headcount-related costs, increased acquisition-related costs and increased restructuring costs, including the consolidation of certain facilities.

During the three months ended March 31, 2013, we generated approximately \$49.0 million in cash flow from operating activities, which after the impact of investing and financing activities described in further detail under "Liquidity and Capital Resources," resulted in a \$25.8 million net increase in our total cash and cash equivalents.

On March 1, 2013, we completed the acquisition of certain assets of Senti, Inc. ("Senti"), a privately-held services company based in Massachusetts with expertise in Microsoft technologies. The acquisition expands our advanced services offerings with an emphasis on multi-vendor UC solutions that can encompass video, voice, data, and networking. The acquisition of Senti is expected to complement current partner capabilities and create new revenue, expertise, and joint go-to-market opportunities, through an expanded UC&C expertise practice. The financial results of Senti have been included in our results of operations from the date of acquisition.

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### Results of Operations for the Three Months Ended March 31, 2013 and 2012

The following table sets forth, as a percentage of revenues, condensed consolidated statements of operations data for the periods indicated.

	Three Months Ended	
	March 31,	March 31,
	2013	2012
<b>Revenues:</b>		
Product revenues	73%	76%
Service revenues	27%	24%
Total revenues	100%	100%
<b>Cost of revenues:</b>		
Cost of product revenues as a % of product revenues	41%	40%
Cost of service revenues as a % of service revenues	41%	41%
Total cost of revenues	41%	40%
Gross profit	59%	60%
<b>Operating expenses:</b>		
Sales and marketing	32%	32%
Research and development	16%	14%
General and administrative	7%	6%
Amortization of purchased intangibles	1%	1%
Restructuring costs	2%	1%
Acquisition-related costs	1%	1%
Total operating expenses	59%	55%
Operating income (loss)	(0%)	5%
Interest and other income (expense), net	(0%)	(1%)
Income (loss) from continuing operations before provision for income taxes	(0%)	4%
Provision for (benefit from) income taxes	(1%)	1%
Net income from continuing operations	1%	3%
Income from discontinued operations, net of taxes	0%	1%
Gain from sale of discontinued operations, net of taxes	0%	0%
Net income	1%	4%

### Revenues

We manage our business primarily on a geographic basis, organized into three geographic segments. Our net revenues, which include product and service revenues, for each segment are summarized for the periods indicated in the following table:

<u>\$ in thousands</u>	Three Months Ended		Increase (Decrease)
	March 31, 2013	March 31, 2012	
Americas	\$170,981	\$165,226	3%
<i>% of revenues</i>	51 %	48 %	
EMEA	\$ 89,092	\$ 93,301	(5)%
<i>% of revenues</i>	26 %	27 %	
APAC	\$ 78,679	\$ 87,183	(10)%
<i>% of revenues</i>	23 %	25 %	
Total revenues	<u>\$338,752</u>	<u>\$345,710</u>	(2)%

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Total revenues for the three months ended March 31, 2013 were \$338.8 million, a decrease of \$7.0 million, or 2%, from the same period in 2012. The decrease in revenues was due to a \$15.1 million, or 6%, decrease in product revenues, partially offset by an increase in service revenues of \$8.2 million, or 10%, in the three months ended March 31, 2013 as compared to the same period in 2012. The decrease in product revenues was primarily a result of lower sales of our UC group systems and UC platform products, partially offset by increased sales of our UC personal devices year-over-year. The increase in service revenues was primarily due to increased maintenance service revenues on a larger installed base and increased maintenance service renewals year-over-year.

Our Americas segment revenues increased by \$5.8 million, or 3%, in the three months ended March 31, 2013 as compared to the same period in 2012. Our EMEA and APAC segment revenues decreased by \$4.2 million, or 5%, and \$8.5 million, or 10%, respectively, in the three months ended March 31, 2013 as compared to the same period in 2012. The overall decrease in revenue was driven by decreased revenues across many of our key geographic markets, including China, India, Germany, Canada, Mexico, France, and the Nordics countries, partially offset by increases in the United States, Japan, Brazil and the United Kingdom. Service revenues increased year-over-year in all our segments, while product revenues grew year-over-year in the Americas segment but declined in the EMEA and APAC segments.

In the three months ended March 31, 2013 and 2012, one channel partner, ScanSource Communications, in our Americas segment accounted for 17% and 15% of our total net revenues, respectively. We believe it is unlikely that the loss of any of our channel partners would have a long term material adverse effect on our consolidated net revenues or segment net revenues as we believe end-users would likely purchase our products from a different channel partner. However, a loss of any one of these channel partners could have a material adverse impact during the transition period.

In addition to the primary view on a geographic basis, we also track revenues by groups of similar products and services for various purposes. The following table presents revenues for groups of similar products and services:

<u>\$ in thousands</u>	<u>Three Months Ended</u>		<u>Increase (Decrease)</u>
	<u>March 31, 2013</u>	<u>March 31, 2012</u>	
UC group systems	\$232,426	\$240,489	(3)%
UC personal devices	49,246	45,452	8 %
UC platform	57,080	59,769	(4)%
Total revenues	<u>\$338,752</u>	<u>\$345,710</u>	(2)%

UC group systems include all immersive telepresence, group video and group voice systems products and the related service elements. The decrease in UC group systems of \$8.1 million, or 3%, in the three months ended March 31, 2013 from the same period in 2012 was primarily driven by decreases in sales of our group video and group voice products and related services in the EMEA and APAC segments and decreases in sales of our immersive telepresence products and related services in all our geographic segments. The decreases were partially offset by increased sales of our group voice and, to a lesser extent, our group video products and related services in our Americas segment.

UC personal devices include desktop video devices and desktop voice products and the related service elements. The increase in UC personal devices of \$3.8 million, or 8%, in the three months ended March 31, 2013 from the same period in 2012 was primarily due to increased sales of our desktop voice products and related services in our Americas and EMEA segments, partially offset by a decrease in desktop voice products and related services in our APAC segment. Overall, the increase in UC personal devices revenues was due in part to increased demand for our Microsoft® Lync® interoperable solutions and the continued adoption of VoIP technologies.

UC platform includes our RealPresence® Platform hardware and software products and the related service elements. The decrease in UC platform revenue of \$2.7 million, or 4%, in the three months ended March 31, 2013 from the same period in 2012 was driven by decreased revenues from our UC platform products in our Americas and APAC segments, partially offset by an increase in UC platform revenues in our EMEA segment. UC platform product revenues decreased 18% year-over-year across all our segments, partially offset by increased revenues of 17% from the related service elements. UC platform revenues decreased primarily as a result of lower public sector spending in North America.

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### *Cost of Revenues and Gross Margins*

<u>\$ in thousands</u>	<u>Three Months Ended</u>		<u>Increase (Decrease)</u>
	<u>March 31, 2013</u>	<u>March 31, 2012</u>	
Product Cost of Revenues	\$101,878	\$105,130	(3)%
% of Product Revenues	41%	40%	1 pt
Product Gross Margins	59%	60%	(1)pt
Service Cost of Revenues	\$ 37,777	\$ 34,244	10%
% of Service Revenues	41%	41%	—
Service Gross Margins	59%	59%	—
Total Cost of Revenues	\$139,655	\$139,374	—
% of Total Revenues	41%	40%	1 pt
Total Gross Margins	59%	60%	(1)pt

### *Cost of Product Revenues and Product Gross Margins*

Cost of product revenues consists primarily of contract manufacturer costs, including material and direct labor, our manufacturing organization, tooling depreciation, warranty expense, freight expense, royalty payments, amortization of certain intangible assets, stock-based compensation costs and an allocation of overhead expenses, including facilities and IT costs. Cost of product revenues and product gross margins included charges for stock-based compensation of \$0.9 million and \$1.0 million for the three months ended March 31, 2013 and 2012, respectively. Cost of product revenues at the segment level consists of the standard cost of product revenues and does not include items such as warranty expense, royalties, and the allocation of overhead expenses, including facilities and IT costs.

Overall, product gross margins decreased by 1 percentage point in the three months ended March 31, 2013 as compared to the same period in 2012, primarily due to lower than expected product sales and changes in product mix, partially offset by decreases in warranty expense and amortization of purchased intangibles. From a segment perspective, product gross margins decreased in our Americas and EMEA segments but increased in our APAC segment in the three months ended March 31, 2013 as compared to the same period in 2012.

### *Cost of Service Revenues and Service Gross Margins*

Cost of service revenues consists primarily of material and direct labor, including stock-based compensation costs, depreciation, and an allocation of overhead expenses, including facilities and IT costs. Cost of service revenues and service gross margins included charges for stock-based compensation of \$1.5 million and \$1.3 million for the three months ended March 31, 2013 and 2012, respectively.

Overall, service gross margins remained flat in the three months ended March 31, 2013 as compared to the same period in 2012, primarily due to increased services revenues being offset by increased cost of services. Service revenues increased by 10% year-over year, primarily due to increased maintenance service revenues on a larger installed base and increased maintenance service renewals. The increase in direct spending costs was as a result of increased headcount-related costs and IT and facilities allocations. Services organization headcount increased by 29% from March 31, 2012 to March 31, 2013, including headcount from the Senti acquisition completed in March 2013. Service gross margins as a percentage of revenues were up in our EMEA and APAC segments but down in our Americas segment for the three months ended March 31, 2013 as compared to the same period in 2012.

### *Total Cost of Revenues and Total Gross Margins*

Overall, total gross margins as a percentage of revenues decreased by 1 percentage point for the three months ended March 31, 2013 as compared to the same period in 2012. The decrease in total gross margins was driven primarily by the decrease in the product gross margins, as discussed under Cost of Product Revenues and Product Gross Margins, while the service gross margins remained relatively flat, as discussed under Cost of Service Revenues and Service Gross Margins.

We expect gross margins to remain relatively flat in the near term. Forecasting future gross margin percentages is difficult, and there are a number of risks related to our ability to maintain or improve our current gross margin levels. Our cost of revenues as a percentage of revenues can vary significantly based upon a number of factors such as the following: uncertainties surrounding revenue levels, including future pricing and/or potential discounts as a result of the economy or in response to the strengthening of the U.S. dollar in our international markets, and related production level variances; competition; the extent to which new services sales accompany our product sales, as well as maintenance renewal rates; changes in technology; changes in product mix; variability of stock-based compensation costs; royalties to third parties; utilization of our professional services personnel as we develop our

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professional services practice and as we make investments to expand our professional services offerings; increasing costs for freight and repair costs; our ability to achieve greater efficiencies in the installations of our immersive telepresence products; manufacturing efficiencies of subcontractors; manufacturing and purchase price variances; higher prices on commodity components; warranty and recall costs and the timing of sales. In order to control expenses in any given quarter, we have taken actions to reduce costs such as imposing travel restrictions, postponing salary increases, requesting employees to use paid time off or implementing other cost control measures. Such actions may not be able to be implemented in a timely manner or may not be successful in completely offsetting the impact of lower-than-anticipated revenues.

### *Sales and Marketing Expenses*

<u>\$ in thousands</u>	<u>Three Months Ended</u>		<u>Decrease</u>
	<u>March 31,</u> <u>2013</u>	<u>March 31,</u> <u>2012</u>	
Expenses	\$108,715	\$112,167	(3)%
% of Revenues	32%	32%	—

Sales and marketing expenses consist primarily of salaries and commissions for our sales force, including stock-based compensation costs, advertising and promotional expenses, product marketing expenses, and an allocation of overhead expenses, including facilities and IT costs. Sales and marketing expenses, except for direct sales and marketing expenses, are not allocated to our segments. Sales and marketing expenses included charges for stock-based compensation of \$6.6 million and \$7.6 million for the three months ended March 31, 2013 and 2012, respectively.

Sales and marketing expenses decreased by \$3.5 million, or 3%, and were flat as a percentage of revenues for the three months ended March 31, 2013 as compared to the same period in 2012. The decrease in sales and marketing expenses in absolute dollars was due primarily to decreased compensation costs, including commissions and stock-based compensation expenses, partially offset by increased spending on marketing programs. Sales and marketing headcount decreased by 7% from March 31, 2012 to March 31, 2013 as a result of delayed hiring from recent attrition in order to better align costs with revenues.

We expect our sales and marketing expenses to increase slightly in absolute dollars in the near term. Expenses will also fluctuate depending on revenue levels achieved as certain expenses, such as commissions, are determined based upon the revenues achieved. Forecasting sales and marketing expenses as a percentage of revenues is highly dependent on expected revenue levels and could vary significantly depending on actual revenues achieved in any given quarter. Marketing expenses will also fluctuate depending upon the timing and extent of marketing programs as we market new products. Sales and marketing expenses may also fluctuate due to increased international expenses and the impact of changes in foreign currency exchange rates. In order to control expenses in any given quarter, we have taken actions to reduce costs such as imposing travel restrictions, postponing salary increases, requesting employees to use paid time off or implementing other cost control measures. Such actions may not be able to be implemented in a timely manner or may not be successful in completely offsetting the impact of lower than anticipated revenues.

### *Research and Development Expenses*

<u>\$ in thousands</u>	<u>Three Months Ended</u>		<u>Increase</u>
	<u>March 31,</u> <u>2013</u>	<u>March 31,</u> <u>2012</u>	
Expenses	\$55,935	\$49,702	13%
% of Revenues	16%	14%	2pts

Research and development costs are expensed as incurred and consist primarily of compensation costs, including stock-based compensation costs, outside services, expensed materials, depreciation and an allocation of overhead expenses, including facilities and IT costs. Research and development costs are not allocated to our segments. Research and development expenses included charges for stock-based compensation of \$4.7 million and \$4.5 million for the three months ended March 31, 2013 and 2012, respectively.

Research and development expenses increased by \$6.2 million, or 13%, for the three months ended March 31, as compared to the same period in 2012. Research and development expenses as a percentage of revenues increased by 2 percentage points for the three months ended March 31, 2013 as compared to the same period in 2012. The increase in absolute dollars was primarily due to increased headcount-related costs, including salaries and bonuses, and increased temporary workers, increased expensed materials and increased development costs in support of our ongoing product development efforts. Allocated expenses also increased as a result of a headcount increase of 9% from March 31, 2012 to March 31, 2013.

We believe that innovation and technological leadership is critical to our future success, and we are committed to continuing a significant level of research and development to develop new technologies and products to combat competitive pressures, such as the

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new Scalable Video Coding standard to address the device, application and networks requirements of mobile, SMB and consumer networks, and the other technologies incorporated into our next-generation products. We are also investing more heavily in research and development as a result of increased business opportunities with strategic partners, mobile and service provider customers as a result of our key strategic initiatives in these areas. We expect that research and development expenses in absolute dollars will remain relatively flat in the near term, but will fluctuate depending on the timing and number of development activities in any given quarter. Research and development expenses as a percentage of revenues is highly dependent on expected revenue levels and could vary significantly depending on actual revenues achieved in any given quarter. In order to control expenses in any given quarter, we have from time to time taken actions to reduce costs such as imposing travel restrictions, postponing salary increases, requesting employees to use paid time off or implementing other cost control measures. Such actions may not be able to be implemented in a timely manner or may not be successful in completely offsetting the impact of lower than anticipated revenues.

### *General and Administrative Expenses*

<u>\$ in thousands</u>	<u>Three Months Ended</u>		<u>Increase</u>
	<u>March 31,</u>	<u>March 31,</u>	
	<u>2013</u>	<u>2012</u>	
Expenses	\$23,694	\$21,317	11%
% of Revenues	7%	6%	1pt

General and administrative expenses consist primarily of compensation costs, including stock-based compensation costs, professional service fees, allocation of overhead expenses, including facilities and IT costs, litigation costs and bad debt expense. General and administrative expenses are not allocated to our segments. General and administrative expenses included charges for stock-based compensation of \$4.1 million and \$3.3 million for the three months ended March 31, 2013 and 2012, respectively.

General and administrative expenses increased by \$2.4 million, or 11%, and increased by 1 percentage point as a percentage of revenues during the three months ended March 31, 2013, as compared to the same period in 2012. The increase in absolute dollars is primarily due to increased compensation-related costs including stock-based compensation expense and increased overhead allocations as a result of increased headcount and our new headquarters building in San Jose, California, partially offset by executive severance expenses and management transition related costs in the three months ended March 31, 2012 which did not recur in the three months ended March 31, 2013. General and administrative headcount increased by 7% from March 31, 2012 to March 31, 2013.

Significant future charges due to costs associated with litigation or uncollectability of our receivables could increase our general and administrative expenses and negatively affect our profitability in the quarter in which they are recorded. Additionally, predicting the timing of litigation and bad debt expense associated with uncollectible receivables is difficult. Future general and administrative expense increases or decreases in absolute dollars are difficult to predict due to the lack of visibility of certain costs, including legal costs associated with defending claims against us, as well as legal costs associated with asserting and enforcing our intellectual property portfolio and other factors.

We expect that our general and administrative expenses will remain relatively flat in absolute dollar amounts in the near term, but could fluctuate depending on the level and timing of additional investments required to support our strategic initiatives. In order to control expenses in any given quarter, we have taken actions to reduce costs such as imposing travel restrictions, postponing salary increases, requesting employees to use paid time off or implementing other cost control measures. Such actions may not be able to be implemented in a timely manner or may not be successful in completely offsetting the impact of lower than anticipated revenues.

### *Amortization of Purchased Intangibles*

In the three months ended March 31, 2013 and 2012, we recorded \$2.5 million and \$2.3 million, respectively, in operating expenses for amortization of purchased intangibles related to acquisitions. In addition, we recorded amortization expenses totaling \$1.3 million and \$1.9 million in the three months ended March 31, 2013 and 2012, respectively, in cost of product revenues related to certain technology intangibles. The increase in amortization expenses to operating costs is primarily due to amortization of intangibles acquired in our Senti acquisition in March 2013. The decrease in amortization expenses to cost of product revenues is primarily due to certain technologies acquired in prior years being fully amortized. Purchased intangible assets are being amortized over their estimated useful lives, which range from several months to eight years.

### *Restructuring*

During the three months ended March 31, 2013 and 2012, we recorded charges totaling \$5.4 million and \$2.9 million, respectively, related to restructuring actions that resulted from the consolidation and elimination of certain facilities as well as the elimination or relocation primarily of engineering positions as a result of downsizing our Burnaby, Canada location as part of restructuring plans approved by management. These actions are generally intended to consolidate operations in order to gain efficiencies and reallocate resources to more strategic growth areas of the business. See Note 7 of Notes to Condensed Consolidated Financial Statements for further information on restructuring costs.

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We currently expect to record additional restructuring charges of between \$8.0 million and \$11.0 million through the fourth quarter of 2013, primarily related to the elimination or consolidation of certain facilities to gain efficiencies. In the future, we may take additional restructuring actions to gain operating efficiencies or reduce our operating expenses, while simultaneously implementing additional cost containment measures and expense control programs. Such restructuring actions are subject to significant risks, including delays in implementing expense control programs or workforce reductions and the failure to meet operational targets due to the loss of employees or a decrease in employee morale, all of which would impair our ability to achieve anticipated cost reductions. If we do not achieve the anticipated cost reductions, our financial results could be negatively impacted.

### *Acquisition-related Costs*

We expense all acquisition and other transaction related costs as incurred. These costs generally include legal and accounting fees and other integration services. In addition, we have incurred costs related to planning and executing the divestiture of our enterprise wireless solutions business that closed in December 2012, including legal costs associated with enforcing terms of the agreement. We have spent and will continue to spend significant resources identifying and acquiring businesses. During the three months ended March 31, 2013 and 2012, we recorded \$3.3 million and \$1.9 million of acquisition-related expenses, respectively.

### *Interest and Other Income (Expense), Net*

Interest and other income (expense), net, consists primarily of interest earned on our cash, cash equivalents and investments less bank charges resulting from the use of our bank accounts, gains and losses on investments, non-income related taxes and fees, and foreign exchange related gains and losses. Interest and other income (expense), net was a net expense of \$0.8 million and \$1.8 million during the three months ended March 31, 2013 and 2012, respectively. The decrease in net expense of \$1.0 million for the three months ended March 31, 2013 as compared to the same period in 2012 was primarily due to a decrease in net foreign exchange losses and an increase in interest income in the quarter ended March 31, 2013, partially offset by an increase in losses on fixed asset disposals.

Interest and other income (expense), net, will fluctuate due to changes in interest rates and returns on our cash and investments, any future impairment of investments, foreign currency rate fluctuations on un-hedged exposures, fluctuations in costs associated with our hedging program and timing of non-income related taxes and license fees. The cash balance could also decrease depending upon the amount of cash used in any future acquisitions, our stock repurchase activity and other factors, which would also impact our interest income.

### *Provision for (Benefit from) Income Taxes from Continuing Operations*

The following table presents the income tax expense (benefit) from continuing operations and the effective tax rates:

	Three Months Ended March 31,	
	2013	2012
Income tax expense (benefit) from continuing operations (in thousands)	\$(3,371)	\$1,850
Effective tax rate	268.8%	13.0%

For the three months ended March 31, 2013, we recorded an income tax benefit of \$3.4 million primarily due to impacts associated with proportional earnings from our operations in lower tax jurisdictions, recurring permanent adjustments, and discrete benefits recorded during the quarter, \$2.2 million of which was due to the reinstatement of the federal research and development tax credit signed into law on January 2, 2013, but retroactive to 2012, and \$0.8 million of which was due to tax benefits realized on disqualifying dispositions of stock from our employee stock purchase plan. Our effective tax rate for the three months ended March 31, 2013 and 2012 was 268.8% and 13.0%, respectively. The effective tax rate differs from the U.S. federal statutory rate of 35% due primarily to favorable tax rates associated with certain earnings from our operations in lower-tax jurisdictions throughout the world, partially offset by non-deductible stock-based compensation expense.

As of March 31, 2013, the amount of gross unrecognized tax benefits was \$23.7 million, all of which would affect our effective tax rate if realized. We recognize interest income and interest expense and penalties on tax overpayments and underpayments within income tax expense. As of March 31, 2013 and 2012, we had approximately \$1.5 million and \$2.2 million, respectively, of accrued interest and penalties related to uncertain tax positions. We anticipate that, except for \$2.5 million in uncertain tax positions that may be reduced related to the lapse of various statutes of limitation, there will be no material changes in uncertain tax positions in the next 12 months.

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We are a U.S. based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions, and have entered into agreements with the local governments in certain foreign jurisdictions where we have significant operations to provide us with favorable tax rates in those jurisdictions if certain criteria are met. Tax benefits realized from favorable tax rates for the quarter ended March 31, 2013 were not material in the aggregate and did not have a material impact on earnings per share.

Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates, which are difficult to predict, could be unfavorably affected by changes in, or interpretation of, tax rules and regulations in the jurisdictions in which we do business, by unanticipated decreases in the amount of revenue or earnings in countries with low statutory tax rates, by lapses of the availability of the U.S. research and development tax credit, or by changes in the valuation of our deferred tax assets and liabilities. Further, the accounting for stock compensation expense in accordance with ASC 718 and uncertain tax positions in accordance with ASC 740 could result in more unpredictability and variability to our future effective tax rates.

We are also subject to the periodic examination of our income tax returns by the Internal Revenue Service and other tax authorities, and in some cases, we have received additional tax assessments. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. We may underestimate the outcome of such examinations which, if significant, would have a material adverse effect on our results of operations and financial condition. The timing of the resolution of income tax examinations is highly uncertain and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. While it is reasonably possible that some issues in current on-going tax examinations could be resolved within the next 12 months, based on the current facts and circumstances, we cannot estimate the timing of such resolution or the range of potential changes as it relates to the unrecognized tax benefits that are recorded as part of our financial statements. We do not expect any material settlements in the next 12 months, but the outcomes of these examinations are inherently uncertain.

### *Segment Information*

A description of our products and services, as well as selected financial data, for each segment can be found in Note 15 to our Condensed Consolidated Financial Statements. Future changes to our organizational structure or business may result in changes to the reportable segments disclosed. The discussions below include the results of each of our segments included in income from continuing operations for the three months ended March 31, 2013 and 2012. Results from discontinued operations have been excluded from our segments, which primarily impacted the Americas and EMEA segments and to a lesser extent our APAC segment. The revenues and operating results relating to our discontinued operations have been restated from the prior year period to conform to the current period presentation.

Segment contribution margin includes all segment revenues less the related cost of sales and direct marketing and sales expenses. Management allocates some infrastructure costs such as facilities and IT costs in determining segment contribution margin. Contribution margin is used, in part, to evaluate the performance of, and to allocate resources to, each of the segments. Certain operating expenses are not allocated to segments because they are separately managed at the corporate level. These unallocated costs include corporate manufacturing costs, sales and marketing costs other than direct sales and marketing, stock-based compensation costs, research and development costs, general and administrative costs, such as legal and accounting costs, acquisition-related costs, amortization of purchased intangible assets, restructuring costs, and interest and other income (expense), net. Effective January 1, 2013, we began to allocate certain services costs previously reported within the Americas segment into both the EMEA and APAC segments in order to more appropriately align costs among the segments with the associated revenues. As such, all prior periods reported were also reclassified to conform to the current year presentation.

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The following is a summary of the financial information for each of our segments for the three months ended March 31, 2013 and 2012 (in thousands):

	<u>Americas</u>	<u>EMEA</u>	<u>APAC</u>	<u>Total</u>
<b>For the three months ended March 31, 2013:</b>				
Revenues	\$170,981	\$89,092	\$78,679	\$338,752
<i>% of total revenues</i>	51%	26%	23%	100%
Contribution margin	69,229	37,560	30,845	137,634
<i>% of segment revenues</i>	40%	42%	39%	41%
<b>For the three months ended March 31, 2012:</b>				
Revenues	\$165,226	\$93,301	\$87,183	\$345,710
<i>% of total revenues</i>	48%	27%	25%	100%
Contribution margin	69,136	39,100	35,199	143,435
<i>% of segment revenues</i>	42%	42%	40%	41%
As of March 31, 2013: Gross accounts receivable	\$ 92,320	\$64,282	\$63,103	\$219,705
<i>% of total gross accounts receivable</i>	42 %	29 %	29 %	100 %
As of December 31, 2012: Gross accounts receivable	100,494	67,529	71,128	239,151
<i>% of total gross accounts receivable</i>	42%	28%	30%	100%

### AMERICAS

<u>\$ in thousands</u>	<u>Three Months Ended</u>		<u>Increase (Decrease)</u>
	<u>March 31, 2013</u>	<u>March 31, 2012</u>	
Revenues	\$170,981	\$165,226	3%
Contribution margin	\$ 69,229	\$ 69,136	—
Contribution margin as % of Americas revenues	40%	42%	(2)pts

Our Americas segment revenues increased by 3% in the three months ended March 31, 2013 as compared to the same period in 2012, primarily due to increased revenues in the United States and Brazil, partially offset by decreases in Canada and Mexico. The increase in Americas segment revenues was primarily driven by increased revenues from UC group systems and, to a lesser extent, UC personal devices, partially offset by decreased UC platform revenues. Increases in UC group systems revenues were primarily driven by increased group voice and group video revenues, partially offset by decreased immersive telepresence revenues. Increases in UC personal devices revenues were primarily driven by increased desktop voice sales as a result of Lync voice deployments as well as increased desktop video sales. UC platform revenues decreased primarily as a result of decreased sales of our RealPresence products and services, which were negatively impacted by lower public sector spending in North America.

In the three months ended March 31, 2013 and 2012, one channel partner in our Americas segment accounted for 33% and 29% of our Americas net revenues, respectively. We believe it is unlikely that the loss of any of our channel partners would have a long term material adverse effect on our consolidated net revenues or segment net revenues as we believe end-users would likely purchase our products from a different channel partner. However, a loss of any one of these channel partners could have a material adverse impact during the transition period.

Contribution margin as a percentage of Americas segment revenues decreased by 2 percentage points for the three months ended March 31, 2013 as compared to the same period in 2012, primarily due to lower gross margins partially offset by decreased direct sales and marketing expenses in both absolute dollars and as a percentage of revenues. The decrease in gross margins was primarily driven by lower product gross margins as a result of a product mix shift and increased product rebates and incentives. The decrease in direct sales and marketing expenses were due to lower headcount-related costs, including decreased commission expenses and headcount based allocations, partially offset by increased expenses associated with the outsourcing of the telesales group.

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### EMEA

<u>\$ in thousands</u>	<u>Three Months Ended</u>		<u>Decrease</u>
	<u>March 31,</u>	<u>March 31,</u>	
	<u>2013</u>	<u>2012</u>	
Revenues	\$89,092	\$93,301	(5)%
Contribution margin	\$37,560	\$39,100	(4)%
Contribution margin as % of EMEA revenues	42%	42%	—

Our EMEA segment revenues decreased by 5% in the three months ended March 31, 2013 as compared to the same period in 2012, primarily due to lower sales of UC group systems, partially offset by increases in revenues from UC personal devices and, to a lesser extent, UC platform. UC group systems revenues decreased primarily due to decreases in group voice and group video revenues. The overall decline in EMEA segment revenues was primarily due to the current economic conditions in the region which resulted in a slowdown in IT spending. Revenues were down primarily in Germany, France, and the Nordic countries, partially offset by increases in the United Kingdom and Italy.

In the three months ended March 31, 2013 and 2012, one channel partner in our EMEA segment accounted for 11% and 12% of our EMEA net revenues, respectively. We believe it is unlikely that the loss of any of our channel partners would have a long term material adverse effect on our consolidated net revenues or segment net revenues as we believe end-users would likely purchase our products from a different channel partner. However, a loss of any one of these channel partners could have a material adverse impact during the transition period.

Contribution margin as a percentage of EMEA segment revenues remained flat for the three months ended March 31, 2013 as compared to the same period in 2012, primarily due to slight increases in both gross margins and direct sales and marketing expenses as a percentage of revenues, which resulted in less than a percentage point change in contribution margin. The slight increase in gross margins was driven primarily by higher service gross margins, partially offset by lower product gross margins driven by a product mix shift. Direct sales and marketing expenses increased slightly as a percentage of revenues but decreased in absolute dollars, primarily due to decreased headcount-related costs and decreased overhead allocations as a result of decreased headcount in the three months ended March 31, 2013 as compared to the same period in 2012.

### APAC

<u>\$ in thousands</u>	<u>Three Months Ended</u>		<u>Decrease</u>
	<u>March 31,</u>	<u>March 31,</u>	
	<u>2013</u>	<u>2012</u>	
Revenues	\$78,679	\$87,183	(10)%
Contribution margin	\$30,845	\$35,199	(12)%
Contribution margin as % of APAC revenues	39%	40%	(1)pt

Our APAC segment revenues decreased by 10% in the three months ended March 31, 2013 as compared to the same period in 2012 primarily driven by decreases in UC group systems and, to a lesser extent, UC platform and UC personal devices. Decreases in UC group systems revenues in APAC were primarily driven by decreased group video and immersive telepresence revenues, and, to a lesser extent, decreased group voice revenues. Revenues decreased year-over-year primarily in China and, to a lesser extent, India, partially offset by an increase in Japan. The overall decline in our APAC segment revenues was primarily due to continuing slowdown of government spending and elongated sales cycles.

In the three months ended March 31, 2013 and 2012, two channel partners in our APAC segment, in aggregate, accounted for 28% and 36% of our APAC net revenues, respectively. We believe it is unlikely that the loss of any of our channel partners would have a long term material adverse effect on our consolidated net revenues or segment net revenues as we believe end-users would likely purchase our products from a different channel partner. However, a loss of any one of these channel partners could have a material adverse impact during the transition period.

Contribution margin as a percentage of APAC segment revenues decreased by 1 percentage point in the three months ended March 31, 2013 as compared to the same period in 2012, primarily due to higher direct sales and marketing expenses as a percentage of revenues, partially offset by a slight increase in gross margins as a percentage of revenues. Direct sales and marketing expenses increased as a percentage of revenues, primarily due to lower revenues. The increase in gross margins was primarily due to an increase in product gross margins driven by a product mix shift.

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### *Discontinued Operations*

On May 10, 2012, we entered into a Purchase and Sale Agreement (the “Purchase Agreement”) with Mobile Devices Holdings, LLC, a Delaware limited liability corporation (“Mobile Devices”), pursuant to which we would divest our enterprise wireless voice solutions (“EWS”) business to an affiliate of Sun Capital Partners, Inc. On October 22, 2012, the Purchase Agreement was amended (the “Amended Purchase Agreement”). Per the terms of the Amended Purchase Agreement, Mobile Devices would acquire SpectraLink Corporation (“SpectraLink”), a wholly-owned subsidiary of Polycom, by purchasing all of the outstanding stock and an intercompany note of SpectraLink from Polycom. On December 4, 2012, we completed the disposition of the assets of the EWS business to Mobile Devices and received cash consideration of approximately \$50.7 million, resulting in a gain on sale of the discontinued operations, net of taxes, of \$35.4 million, as reflected in our consolidated financial statements for the year ended December 31, 2012. In the quarter ended March 31, 2013, we recorded an additional gain on sale of discontinued operations, net of taxes, of approximately \$0.5 million as a result of a net working capital adjustment in accordance with the Purchase Agreement. Additional cash consideration of up to \$57.0 million is payable over the next four years subject to certain conditions, including meeting certain agreed-upon EBITDA-based milestones. Such additional cash consideration will be accounted for as a gain on sale of discontinued operations, net of taxes, if it is realized or realizable. We have reported the results of operations of EWS as discontinued operations within the condensed consolidated statements of operations for all periods presented. See Note 3 of Notes to Condensed Consolidated Financial Statements for further discussion of our discontinued operations.

Summarized results from discontinued operations were as follows (in thousands):

	Three Months
	Ended March 31, 2012
Revenues	\$ 21,758
Income from discontinued operations	4,025
Provision for income taxes	1,272
Income from discontinued operations, net of taxes	\$ 2,753

There were no results from discontinued operations during the three months ended March 31, 2013, as the divestiture of the EWS business was completed in December 2012.

### *Liquidity and Capital Resources*

As of March 31, 2013, our principal sources of liquidity included cash and cash equivalents of \$502.9 million, short-term investments of \$179.9 million and long-term investments of \$45.6 million. Substantially all of our short-term and long-term investments are comprised of U.S. government and agency securities and corporate debt securities. See Note 10 of Notes to Condensed Consolidated Financial Statements for further information on our short-term and long-term investments. We also have outstanding letters of credit totaling approximately \$7.1 million, which are in place to satisfy certain of our facility lease requirements as well as other legal, tax, and insurance obligations.

Our total cash and cash equivalents and investments held in the United States totaled \$281.7 million as of March 31, 2013, and the remaining \$446.7 million was held by various foreign subsidiaries outside of the United States.

If we need to access our cash and cash equivalents and investments held outside of the United States in order to fund acquisitions, share repurchases or our working capital needs, we may be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes.

We generated cash from operating activities totaling \$49.0 million and \$32.0 million in the three months ended March 31, 2013 and 2012, respectively. The increase in cash provided by operating activities for the three months ended March 31, 2013 as compared to the same period in 2012 was primarily due to improved days sales outstanding and increased inventory turns over the prior year, partially offset by lower net income after adjusting for non-cash expenses.

The total net change in cash and cash equivalents for the three months ended March 31, 2013 was an increase of \$25.8 million. The primary sources of cash were \$49.0 million from operating activities, \$22.0 million of net sales and maturities of investments, \$13.2 million associated with the exercise of stock options and purchases under the employee stock purchase plan and \$0.6 million net cash received as a result of net working capital adjustment related to the sale of our EWS business. The primary uses of cash during this period were \$38.0 million for share repurchases, \$12.8 million for purchases of property and equipment, and \$8.4 million cash paid for our acquisition of Senti.

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Our days-sales-outstanding (“DSO”) metric was 48 days at March 31, 2013 and 52 days at March 31, 2012. The decrease in DSO is primarily due to improved cash collections in the quarter ended March 31, 2013, as well as improved revenue linearity. DSO could vary as a result of a number of factors such as fluctuations in revenue linearity, an increase in international receivables, and increases in receivables from service providers and government entities, which have customarily longer payment terms. DSO could be negatively impacted in the current economic environment if our partners experience difficulty in financing purchases, which results in delays in payment to us.

Inventory turns were 5.7 turns at March 31, 2013 as compared to 5.1 turns at March 31, 2012. The increase in inventory turns was primarily due to a lower inventory balance at March 31, 2013 as compared to March 31, 2012 while cost of revenues remained relatively flat. We believe inventory turns will fluctuate depending on our ability to reduce lead times, as well as changes in product mix and a mix of ocean freight versus air freight. Our inventory turns may also decrease in the future as a result of the flexibility required to respond to the increased demands of our growing business.

We enter into foreign currency forward contracts, which typically mature in one month, to hedge our exposure to foreign currency fluctuations of foreign currency-denominated receivables, payables, and cash balances. We record on the condensed consolidated balance sheet at each reporting period the fair value of our foreign currency forward contracts and record any fair value adjustments in results of operations. Gains and losses associated with currency rate changes on contracts are recorded as interest and other income (expense), net, offsetting transaction gains and losses on the related assets and liabilities. Additionally, our hedging costs can vary depending upon the size of our hedge program, whether we are purchasing or selling foreign currency relative to the U.S. dollar and interest rates spreads between the U.S. and other foreign markets.

Additionally, we also have a hedging program that uses foreign currency forward contracts to hedge a portion of anticipated revenues, cost of revenues, and operating expenses denominated in the Euro and British Pound as well as operating expenses denominated in Israeli Shekels. Our foreign exchange risk management program objective is to reduce volatility in our cash flows from unanticipated foreign currency fluctuations. At each reporting period, we record the fair value of our unrealized forward contracts on the condensed consolidated balance sheet with related unrealized gains and losses as a component of cumulative other comprehensive income, a separate element of stockholders’ equity. Realized gains and losses associated with the effective portion of the foreign currency forward contracts are recorded within revenues, cost of revenues, or operating expenses, depending upon the underlying exposure being hedged. Any excluded and ineffective portions of a hedging instrument would be recorded as interest and other income (expense), net.

From time to time, the Board of Directors approves plans to purchase shares of our common stock in the open market. During the three months ended March 31, 2013, we purchased 3.4 million shares of common stock in the open market for \$34.2 million. During the three months ended March 31, 2012, we did not repurchase any shares of common stock in the open market. As of March 31, 2013, we were authorized to purchase up to an additional \$39.1 million of shares in the open market under the current share repurchase plan.

At March 31, 2013, we had open purchase orders related to our contract manufacturers and other contractual obligations of approximately \$190.8 million primarily related to inventory purchases. We also currently have commitments that consist of obligations under our operating leases. In the event that we decide to cease using a facility and seek to sublease such facility or terminate a lease obligation through a lease buyout or other means, we may incur a material cash outflow at the time of such transaction, which will negatively impact our operating results and overall cash flows. In addition, if facilities rental rates decrease or if it takes longer than expected to sublease these facilities, we could incur a significant further charge to operations and our operating and overall cash flows could be negatively impacted in the period that these changes or events occur.

These purchase commitments and lease obligations are reflected in our Condensed Consolidated Financial Statements once goods or services have been received or at such time that we are obligated to make payments related to these goods, services or leases. In addition, our bank has issued letters of credit totaling approximately \$7.1 million, which are used to secure the leases on some of our foreign offices as well as other legal, tax, and insurance obligations.

The table set forth below shows, as of March 31, 2013, the future minimum lease payments due under our current lease obligations. There was no sublease income netted in the amounts below, as the amounts are not material. In addition to these minimum lease payments, we are contractually obligated under the majority of our operating leases to pay certain operating expenses during the term of the lease such as maintenance, taxes and insurance. Our contractual obligations as of March 31, 2013 are as follows (in thousands):

	Minimum Lease Payments	Projected Annual Operating Lease Costs	Other Long-Term Liabilities	Purchase Commitments
Remainder of 2013	\$ 28,764	\$ 4,592	\$ —	\$ 190,744
2014	36,592	3,580	3,220	18
2015	30,468	2,661	2,649	—
2016	24,773	1,979	3,228	—
2017	20,942	1,411	2,105	—
Thereafter	68,788	2,933	14,493	—
<b>Total payments</b>	<b>\$ 210,327</b>	<b>\$ 17,156</b>	<b>\$ 25,695</b>	<b>\$ 190,762</b>

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As discussed in Note 16 of our Notes to Condensed Consolidated Financial Statements, at March 31, 2013, we have unrecognized tax benefits, including related interest, totaling \$25.2 million, \$2.8 million of which may be released in the next 12 months due to the lapse of certain statutes of limitation in the applicable tax jurisdictions. In addition, payments we make for income taxes may increase during 2013 as our available net operating losses and research and development tax credits are depleted.

We believe that our available cash, cash equivalents and investments will be sufficient to meet our operating expenses and capital requirements for the next 12 months based on our current business plans. However, we may require or desire additional funds to support our operating expenses and capital requirements or for other purposes, such as acquisitions, and may seek to raise such additional funds through public or private equity financing, debt financing or from other sources. We cannot assure you that additional financing will be available at all or that, if available, such financing will be obtainable on terms favorable to us and would not be dilutive. Our future liquidity and cash requirements will depend on numerous factors, including the introduction of new products and potential acquisitions of related businesses or technology.

### *Off-Balance Sheet Arrangements*

As of March 31, 2013, we did not have any off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

### *Critical Accounting Policies and Estimates*

Our Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America. We review the accounting policies used in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our process used to develop estimates, including those related to product returns, accounts receivable, inventories, investments, intangible assets, income taxes, warranty obligations, restructuring, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates due to actual outcomes being different from those on which we based our assumptions. These estimates and judgments are reviewed by management on an ongoing basis and by the Audit Committee at the end of each quarter prior to the public release of our financial results.

Our significant accounting policies were described in Note 1 to our audited Consolidated Financial Statements and under “Critical Accounting Policies and Estimates” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the year ended December 31, 2012. There have been no significant changes to these policies or recent accounting pronouncements or changes in accounting pronouncements that are of potential significance to us during the three months ended March 31, 2013.

### *Recent Accounting Pronouncements*

In February 2013, the Financial Standards Board (“FASB”) issued an accounting standard update that requires an entity to expand the disclosure of reclassifications out of accumulated other comprehensive income (“AOCI”). The update requires companies to present reclassifications by component when reporting changes in AOCI balances and to report the effect of significant reclassifications on the respective line items in net income. The guidance is effective prospectively for reporting periods beginning after December 15, 2012. We adopted the guidance in the quarter ended March 31, 2013, and such adoption did not have a material impact on our Consolidated Financial Statements.

In December 2011, the FASB issued an accounting standard update that requires disclosure of the effect or potential effect of offsetting arrangements on a company’s financial position as well as enhanced disclosure of the rights of setoff associated with a company’s recognized assets and liabilities. In January 2013, the FASB issued another accounting standard update to clarify the scope of the standard issued in December 2011. We adopted the guidance in the quarter ended March 31, 2013, and such adoption did not have a material impact on our Consolidated Financial Statements.

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### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### *Interest Rate Risk*

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We generally invest excess cash in marketable debt instruments of the U.S. government and its agencies and high-quality corporate debt securities, and by policy, limit the amount of credit exposure to any one issuer.

The estimated fair value of our cash and cash equivalents approximates the principal amounts reflected in our condensed consolidated balance sheets based on the short maturities of these financial instruments. Short-term and long-term investments consist of U.S. Treasury obligations and other government agency instruments, corporate bonds, commercial paper, non-U.S. government securities and money market funds. The valuation of our investment portfolio is subject to uncertainties that are difficult to predict. If current market conditions deteriorate, we may realize losses on the sale of our investments or we may incur temporary impairment charges requiring us to record unrealized losses in cumulative other comprehensive income (loss). We could also incur additional other-than-temporary impairment charges resulting in realized losses in our condensed consolidated statements of operations, which would reduce net income. We consider various factors in determining whether we should recognize an impairment charge, including the length of time and extent to which the fair value has been less than our cost basis, the financial condition and near-term prospects of the security or issuer, and our intent and ability to hold the investment for a period of time sufficient to allow any anticipated recovery in the market value. Further, if we sell our investments prior to their maturity, we may incur a charge to operations in the period the sale takes place.

A sensitivity analysis was performed on our investment portfolio as of March 31, 2013. The modeling technique used measures the change in fair values arising from hypothetical parallel shifts in the yield curve of various magnitudes. This methodology assumes a more immediate change in interest rates to reflect the current economic environment.

The following table presents the hypothetical fair values of our securities, excluding cash and cash equivalents, held at March 31, 2013 that are sensitive to changes in interest rates. The modeling technique used measures the change in fair values arising from immediate parallel shifts in the yield curve of plus or minus 50 basis points (BPS), 100 BPS and 150 BPS (in thousands):

<u>-150 BPS</u>	<u>-100 BPS</u>	<u>-50 BPS</u>	<u>Fair Value 3/31/2013</u>	<u>+50 BPS</u>	<u>+100 BPS</u>	<u>+150 BPS</u>
\$226,444	\$ 226,159	\$ 225,874	\$225,589	\$ 225,304	\$ 225,019	\$ 224,734

#### *Foreign Currency Exchange Rate Risk*

While the majority of our sales are denominated in United States dollars, we also sell our products and services in certain European regions in Euros and in British Pounds, which has increased our foreign currency exchange rate fluctuation risk.

While we do not hedge for speculative purposes, as a result of our exposure to foreign currency exchange rate fluctuations, we enter into forward exchange contracts to hedge our foreign currency exposure to the Brazilian Real, Euro, British Pound, Israeli Shekel, Japanese Yen, and Mexican Pesos relative to the United States Dollar. We mitigate bank counterparty risk related to our foreign currency hedging program through our policy that requires us to execute hedge contracts with banks that are among the world's largest 100 banks, as ranked by total assets in U.S. dollars.

As of March 31, 2013, we had outstanding forward exchange contracts to sell 3.4 million Brazilian Real at 2.00, sell 28.5 million Euros at 1.31, sell 2.0 million British Pounds at 1.51, sell 27.0 million Israeli Shekels at 3.69, sell 329.8 million Japanese Yen at 92.46, and sell 9.1 million Mexican Pesos at 12.89. These forward exchange contracts hedge our net position of foreign currency-denominated receivables, payables and cash balances and typically mature in 360 days or less. As of March 31, 2013, we also had net outstanding foreign exchange contracts to sell 24.1 million Euros at 1.34, sell 3.8 million British Pounds at 1.57 and buy 39.4 million Israeli Shekels at 3.88. These forward exchange contracts, carried at fair value, typically have maturities of more than 360 days.

We also have a cash flow hedging program under which we hedge a portion of anticipated revenues, cost of revenues and operating expenses denominated in the Euro, British Pound and Israeli Shekels. As of March 31, 2013, we had no outstanding foreign exchange contracts that have maturities of 360 days or less. As of March 31, 2013, we had net outstanding foreign exchange contracts to sell 34.8 million Euros at 1.36, buy 5.3 million British Pounds at 1.57, and buy 80.0 million Israeli Shekels at 3.88. These forward exchange contracts, carried at fair value, typically have maturities of more than 360 days.

Based on our overall currency rate exposure as of March 31, 2013, a near-term 10% appreciation or depreciation in the United States Dollar, relative to our foreign local currencies, would have an immaterial impact on our results of operations. We may also decide to expand the type of products we sell in foreign currencies or may, for specific customer situations, choose to sell in foreign currencies in our other regions, thereby further increasing our foreign exchange risk. See Note 11 of Notes to Condensed Consolidated Financial Statements for further information on our foreign exchange derivatives.

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### Item 4. CONTROLS AND PROCEDURES

#### *Evaluation of disclosure controls and procedures.*

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to Polycom's management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### *Changes in internal control over financial reporting.*

There was no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time, we are involved in claims and legal proceedings that arise in the ordinary course of business. We expect that the number and significance of these matters will increase as our business expands. In particular, we expect to face an increasing number of patent and other intellectual property claims as the number of products and competitors in Polycom's industry grows and the functionality of video, voice, data and web conferencing products overlap. Any claims or proceedings against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources, or require us to enter into royalty or licensing agreements which, if required, may not be available on terms favorable to us or at all. If management believes that a loss arising from these matters is probable and can be reasonably estimated, we record a reserve for the loss. As additional information becomes available, any potential liability related to these matters is assessed and the estimates revised. Based on currently available information, management does not believe that the ultimate outcomes of these unresolved matters, individually and in the aggregate, are likely to have a material adverse effect on the Company's financial position, liquidity or results of operations. However, litigation is subject to inherent uncertainties, and our view of these matters may change in the future. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on our financial position and results of operations or liquidity for the period in which the unfavorable outcome occurs or becomes probable, and potentially in future periods.

ITEM 1A. RISK FACTORS

*YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW BEFORE MAKING AN INVESTMENT DECISION. THE RISKS DESCRIBED BELOW ARE NOT THE ONLY ONES WE FACE. ADDITIONAL RISKS THAT WE ARE NOT PRESENTLY AWARE OF OR THAT WE CURRENTLY BELIEVE ARE IMMATERIAL MAY ALSO IMPAIR OUR BUSINESS OPERATIONS. OUR BUSINESS COULD BE HARMED BY ANY OR ALL OF THESE RISKS. THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE SIGNIFICANTLY DUE TO ANY OF THESE RISKS, AND YOU MAY LOSE ALL OR PART OF YOUR INVESTMENT. IN ASSESSING THESE RISKS, YOU SHOULD ALSO REFER TO THE OTHER INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN OUR ANNUAL REPORT ON FORM 10-K, INCLUDING OUR CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES.*

*Competition in each of our markets is intense, and our inability to compete effectively could significantly harm our business and results of operations.*

We face intense competition in the Americas, EMEA, and Asia Pacific for our UC&C solutions products which places pressure on average selling prices for our products. Some of our competitors compete with us in more than one geographic theater and across all of our product categories. Our major global competitor is Cisco Systems. Our other global competitors include Logitech, Avaya (including RADVISION, which was acquired by Avaya), and Huawei. We also compete with other smaller or new industry entrants.

Our competitive landscape continues to rapidly evolve as we move into new markets for video collaboration such as mobile, browser-based, and cloud-delivered video. Our competitors also continue to develop and introduce new technologies, sometimes proprietary, that represent threats through closed architectures, such as Skype, Google Talk/Hangouts, and Apple FaceTime. Other offerings such as Cisco Systems' Jabber and WebEx, Avaya's Flare-based ADVD, and Citrix Systems' GoToMeeting with HD Faces represent new competitive developments. Many of these companies have substantial financial resources and production, marketing, engineering and other capabilities with which to develop, manufacture, market and sell their products, which may result in our having to lower our product prices and increase our spending on marketing, which would correspondingly have a negative impact on our revenues and operating margins.

Our principal competitive factors in the markets in which we presently compete include the ability to:

- provide and sell a broad range of UC&C solutions and services, including mobile and cloud-based solutions, and our ability to bring such products to market on a timely basis;
- competitively price our products and solutions;
- provide competitive product performance;
- be successful in multiple markets with differing requirements, including, but not limited to, the enterprise, small-to-medium sized businesses (SMB), mobile video, social video, subscription-based video delivered from the cloud and service provider markets;

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- introduce new products and solutions in a timely manner;
- reduce production and service costs;
- provide required functionality such as security, reliability, and scalability;
- ensure investment protection through interoperability and backwards- and forwards-compatibility with other UC&C systems and solutions;
- continue differentiation through open standards and broad interoperability of our infrastructure in complex environments where integration with other third-party technologies, such as Microsoft Lync, is critical;
- successfully integrate our products with, and operate our products on, existing customer platforms and consumer devices;
- gain market presence and brand recognition;
- extend credit to our partners;
- conform to open standards;
- successfully address disruptive technology shifts and new business models, such as cloud-based and software-based UC&C solutions and mobility and consumer solutions; and
- successfully address the transition in the market from point product to solution selling.

Our competitive environment also differs by geography. Cisco Systems is our primary global competitor in all theaters and categories in which we compete. We also compete globally with ClearOne Communications with respect to certain UC personal and UC group products. In the Asia Pacific region, we also compete with China-based competitors such as Huawei, ZTE Corporation, as well as Sony, Snom, and Yealink.

We may not be able to compete successfully against our current or future competitors. We expect our competitors to continue to improve the performance of their current products and to introduce new products or new technologies that provide improved performance. New product introductions by our current or future competitors, or our delay in bringing new products to market, could cause a significant decline in sales or loss of market acceptance of our products. We believe that ongoing competitive pressure may result in a reduction in the prices of our products and our competitors' products. In addition, the introduction of additional lower priced competitive products or of new products or product platforms could render our existing products or technologies obsolete. We also believe we will face increasing competition from alternative UC&C solutions that employ new technologies or new combinations of technologies. Further, the commoditization of certain video conferencing products is leading to the availability of alternative, lower-cost UC&C products than ours, such as those offered by Google, Inc., Skype and others, and, accordingly, could drive down our sales prices and negatively impact our revenues.

***Increased consolidation and the formation of strategic partnerships in our industry may lead to increased competition which could adversely affect our business and future results of operations.***

Strategic partnerships and acquisitions are being formed and announced by our competitors on a regular basis, which increases competition and often results in increased downward pressure on our product prices. For instance, when Cisco Systems acquired Tandberg ASA, previously our largest independent competitor, we had to compete with a larger combined company with significantly greater financial and sales and marketing resources, an extensive channel network and an expanded video communications solutions product line. This product line is often sold in conjunction with Cisco Systems' proprietary network equipment and technology as a complete solution, making it more difficult for us to compete against them or to ascertain pricing on competitive products. In addition, Cisco Systems may use its dominance in network equipment to foreclose competition in the UC&C solutions market. Cisco Systems may also preclude our competitive products from being fully interoperable with Cisco Systems endpoints, video infrastructure and/or network products. Similarly, Avaya acquired Konftel in January 2011 and acquired RADVISION in June 2012, and LifeSize, which was acquired by Logitech, announced a partnership with Alcatel-Lucent in April 2010. These consolidations and partnerships have resulted in increased competition and pricing pressure, as the newly-combined entities have greater financial resources, deeper mass market sales channels and greater pricing flexibility than Polycom. Acquisitions or partnerships made by one of our strategic partners could also limit the potential contribution of our strategic relationships to our business and restrict our ability to form strategic relationships with these companies in the future and, as a result, harm our business.

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Rumored or actual consolidation of our partners and competitors will likely cause uncertainty and disruption to our business and can cause our stock price to fluctuate.

### ***Global economic conditions have adversely affected our business in the past and could adversely affect our revenues and harm our business in the future.***

Adverse economic conditions worldwide have contributed to slowdowns in the communications and networking industries and have caused a negative impact on the specific segments and markets in which we operate. As our business has grown, we have become increasingly exposed to adverse changes in general global economic conditions, which can result in reductions in capital expenditures by end-user customers for our products, longer sales cycles, the deferral or delay of purchase commitments for our products and increased competition. These factors have adversely impacted our operating results in prior periods and could also impact us again in the future. Global economic concerns, such as the varying pace of global economic recovery and European and domestic debt and budget issues, continue to create uncertainty and unpredictability that have contributed to longer selling cycles and cause us to continue to be cautious about our future outlook, including our near-term revenue and profitability outlook. For example, in the first quarter of 2013, we saw weakening demand and longer sales cycles in the public sector, which includes federal, state and local governments, as well as healthcare and education, which we believe were due in large part to budget constraints. A global economic downturn would negatively impact technology spending for our products and services and would materially adversely affect our business, operating results and financial condition. For example, in the first quarter of 2013, we saw weakening demand in Europe and our EMEA segment revenues declined year-over-year by 5%. Further, we have recently seen slower growth than we anticipated in China, India, Brazil, and other growth markets, which we believe is due in part to macro-economic factors. Further, global economic conditions have resulted in a tightening in the credit markets, low liquidity levels in many financial markets, decrease in customer demand and ability to pay obligations, and extreme volatility in credit, equity, foreign currency and fixed income markets.

These adverse economic conditions could negatively impact our business, particularly our revenue potential, losses on investments and the collectability of our accounts receivable, due to the inability of our customers to obtain credit to finance purchases of our products and services, customer or partner insolvencies or bankruptcies, decreased customer confidence to make purchasing decisions resulting in delays in their purchasing decisions, and decreased customer demand or demand for lower-end products.

### ***Our quarterly operating results may fluctuate significantly and are not necessarily a good indicator of future performance.***

Our quarterly operating results have fluctuated in the past and may vary significantly in the future as a result of a number of factors, many of which are out of our control or can be difficult to predict. These factors include, but are not limited to:

- the impact of global economic conditions;
- fluctuations in demand for our products and services, in part due to uncertain global economic conditions and increased competition, as well as transitions in the markets in which we sell products and services;
- our ability to execute on our strategic and operating plans;
- changes to our global organization;
- slowing sales or variations in sales rates by our channel partners to their customers;
- changes to our channel partner programs, contracts and strategy that could result in a reduction in the number of channel partners, could adversely impact our revenues and gross margins as we realign our discount and rebate programs for our channels, or could cause more of our channel partners to add our competitors' products to their portfolio;
- the prices and performance of our products and those of our existing or potential new competitors;
- the timing, size and mix of the orders for our products;
- the level and mix of inventory that we hold to meet future demand;
- changes in effective tax rates which are difficult to predict due to, among other things, the timing and geographical mix of our earnings, the outcome of current or future tax audits and potential new rules and regulations;
- changes in the underlying factors and assumptions used in determining stock-based compensation;
- fluctuations in the level of international sales and our exposure to foreign currency fluctuations on both revenues and expenses;
- dependence on component suppliers and third party manufacturers, which includes outside development manufacturers, and the associated manufacturing costs;

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- the impact of increasing costs of freight and components used in the manufacturing of our products and the potential negative impact on our gross margins;
- the magnitude of any costs that we must incur in the event of a product recall or of costs associated with product warranty claims;
- the impact of seasonality on our various product lines and geographic regions; and
- adverse outcomes in intellectual property litigation and other matters and the costs associated with asserting and enforcing our intellectual property portfolio.

As a result of these and potentially other factors, we believe that period-to-period comparisons of our historical results of operations are not necessarily a good predictor of our future performance. If our future operating results are below the expectations of stock market securities analysts or investors, or below any financial guidance we may provide to the market, our stock price will likely decline. Further, as the scale of our business increases, our ability to forecast becomes more difficult. In addition, financial guidance beyond the current quarter is inherently subject to greater risk and uncertainty.

### ***We face risks associated with developing and marketing our products, including new product development and new product lines.***

*Our success depends on our ability to assimilate new technologies in our products and to properly train our channel partners, sales force and end-user customers in the use of those products.*

The markets for our products are characterized by rapidly changing technology, such as the demand for HD video technology and lower cost video infrastructure products, the shift from on premise-based equipment to a mix of solutions that includes hardware and software and the option for customers to have video delivered as a service from the cloud or through a browser, evolving industry standards and frequent new product introductions, including an increased emphasis on software products. Historically, our focus has been on premise-based solutions for the enterprise and public sector, targeted at vertical markets, including finance, manufacturing, government, education and healthcare. In addition, in response to emerging market trends, and the network effect driven by business-to-business and business-to-consumer adoption of UC&C, we are expanding our focus to capture opportunities within emerging markets including mobile, SMBs, and cloud-based delivery. If we are unable to successfully capture these markets to the extent anticipated, or to develop the new technologies and partnerships required to successfully compete in these markets, then our revenues may not grow as anticipated and our business may ultimately be harmed. Given the competitive nature of the mobile industry, changing end user behaviors and other industry dynamics, these relationships may not evolve into fully-developed product offerings or translate into any future revenues. Further, we are sponsoring the Open Visual Communications Consortium™ (“OVCC™”) to leverage a global consortium of network and managed service providers to deliver broad connectivity service for unified communications and enable better business-to-business communication. The OVCC may not be as successful as we have planned, which could negatively impact our ability to deliver solutions for these markets.

The success of our new products depends on several factors, including proper new product definition, product cost, services infrastructure for cloud delivery, timely completion and introduction of new products, proper positioning and pricing of new products in relation to our total product portfolio and their relative pricing, differentiation of new products from those of our competitors and other products in our own portfolio, market acceptance of these products and the ability to sell our products to customers as comprehensive UC&C solutions. Other factors that may affect our success include properly addressing the complexities associated with compatibility issues, channel partner and sales force training, technical and sales support, and field support.

In addition, we are making additional investments to deliver cloud-based and mobile UC&C solutions, and we continue to invest in immersive telepresence solutions. Ultimately, it is possible that our increased investments in these areas may not yield the planned financial results. In addition, in our high-end UC&C solutions, such as immersive telepresence, that typically require direct high touch sales involvement with potential customers, we compete directly with large, multi-national corporations, such as Cisco Systems, who have substantially greater financial, technical, marketing, and executive resources than we do, as well as greater name recognition and market presence with many potential customers.

We also need to continually educate and train our channel partners to avoid any confusion as to the desirability of new product offerings and solutions compared to our existing product offerings and to be able to articulate and differentiate the value of new offerings over those of our competitors and as the market evolves. During the last few years, we launched several new product offerings, such as our mobile and cloud-based solutions, and these new products could cause confusion among our channel partners and end-users, thereby causing them to delay purchases of our new products until they determine their market acceptance, or as they consider a more UC&C centric strategy versus point product or endpoint only deployments. Any delays in future purchases could adversely affect our revenues, gross margins and operating results in the period of the delay.

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The shift in communications from circuit-switched to IP-based and other new technologies over time may require us to add new channel partners, enter new markets and gain new core technological competencies. We are attempting to address these needs and the need to develop new products through our internal development efforts, through joint developments with other companies and through acquisitions. However, we may not identify successful new product opportunities and develop and bring products to market in a timely manner. Further, as we introduce new products, these product transition cycles may not go smoothly, causing an increased risk of inventory obsolescence and relationship issues with our end-user customers and channel partners. The failure of our new product development efforts, any inability to service or maintain the necessary third-party interoperability licenses, our inability to properly manage product transitions or to anticipate new product demand, or our inability to enter new markets would harm our business and results of operations.

*We may experience delays in product introductions and availability, and our products may contain defects which could seriously harm our results of operations.*

We have experienced delays in the introduction of certain new products and enhancements in the past. The delays in product release dates that we experienced in the past have been due to factors such as unforeseen technology issues, manufacturing ramping issues and other factors, which we believe negatively impacted our sales revenue in the relevant periods. Any of these or other factors may occur again and delay our future product releases.

Our product development groups are dispersed throughout the United States and other international locations such as China, India and Israel. As such, disruption due to geopolitical conflicts could create an increased risk of delays in new product introductions.

We produce highly complex communications equipment, which includes both hardware and software and incorporates new technologies and component parts from different suppliers. Resolving product defect and technology and quality issues could cause delays in new product introduction. Component part shortages could also cause delays in product delivery and lead to increased costs. Further, some defects may not be detected or cured prior to a new product launch, or may be detected after a product has already been launched and may be incurable or result in a product recall. The occurrence of any of these events could result in the failure of a partial or entire product line or a withdrawal of a product from the market. We may also have to invest significant capital and other resources to correct these problems, including product reengineering expenses and inventory, warranty and replacement costs. These problems might also result in claims against us by our customers or others and could harm our reputation and adversely affect future sales of our products.

Any delays for new product offerings currently under development, including product offerings for mobile, cloud-based delivery, software delivery and consumer markets or any product quality issues, product defect issues or product recalls could adversely affect the market acceptance of these products, our ability to compete effectively in the market, and our reputation with our customers, and therefore could lead to decreased product sales and could harm our business. We may also experience cancellation of orders, difficulty in collecting accounts receivable, increased service and warranty costs in excess of our estimates, diversion of resources and increased insurance costs and other losses to our business or to end-user customers. For example, we recently announced a number of new product offerings, some of which are not currently available. If we experience delays in the release of these new products, or if the new products we have introduced contain defects, our business and results of operations may be harmed.

*Product obsolescence or discontinuance and excess inventory can negatively affect our results of operations.*

The pace of change in technology development and in the release of new products has increased and is expected to continue to increase, which can often render existing or developing technologies obsolete. In addition, the introduction of new products and any related actions to discontinue existing products can cause existing inventory to become obsolete. These obsolescence issues, or any failure by us to properly anticipate product life cycles, can require write-downs in inventory value. If sales of one of these products has an unplanned negative effect on sales of another of our products, it could significantly increase the inventory levels of the negatively impacted product. For each of our products, the potential exists for new products to render existing products obsolete, cause inventories of existing products to increase, cause us to discontinue a product or reduce the demand for existing products.

Further, we continually evaluate our product lines both strategically and in terms of potential growth rates and margins. Such evaluations could result in the discontinuance or divestiture of those products in the future, which could be disruptive and costly and may not yield the intended benefits. For example, we divested our enterprise wireless solutions business in December 2012.

*We face risks related to the adoption rate of new technologies.*

We have invested significant resources developing products that are dependent on the adoption rate of new technologies. For example, our Polycom RealPresence Mobile solution is dependent on enterprise adoption of video technology and cloud-based delivery solutions on mobile devices. If the mobile video market does not grow as we anticipate, or if our strategy for addressing the market, or execution of such strategy, is not successful, our business and results of operations could be harmed. In addition, we develop new products or make product enhancements based upon anticipated demand for new features and functionality. Our business

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and revenues may be harmed if the use of new technologies that our future products are based on does not occur; if we do not anticipate shifts in technology appropriately or rapidly enough; if the development of suitable sales channels does not occur, or occurs more slowly than expected; if our products are not priced competitively or are not readily adopted; or if the adoption rates of such new technologies do not drive demand for our other products as we anticipate. For example, although we believe increased sales of UC&C solutions will drive increased demand for our UC platform products, such increased demand may not occur or we may not benefit to the same extent as our competitors. We also may not be successful in creating demand in our installed customer base for products that we develop that incorporate new technologies or features. Conversely, as we see the adoption rate of new technologies increase, product sales of our legacy products may be negatively impacted, which could materially impact our revenues and results of operations.

*Lower than expected market acceptance of our products, price competition and other price changes would negatively impact our business.*

If the market does not accept our products, particularly our new product offerings on which we are relying on for future revenues, such as product offerings for the mobile market, software delivery and cloud-based delivery, our business and operating results would be harmed. Further, revenues relating to new product offerings are unpredictable, and new products typically have lower gross margins for a period of time after their introduction. As we introduce new products, they could increasingly become a higher percentage of our revenues. Our profitability could also be negatively affected in the future as a result of continuing competitive price pressures in the sale of UC&C solutions equipment and UC platform products. Further, in the past we have reduced prices in order to expand the market for our products, and in the future, we may further reduce prices, introduce new products that carry lower margins in order to expand the market or stimulate demand for our products, or discontinue existing products as a means of stimulating growth in a new product.

Finally, if we do not fully anticipate, understand and fulfill the needs of end-user customers in the vertical markets that we serve, we may not be able to fully capitalize on product sales into those vertical markets and our revenues may, accordingly, fail to grow as anticipated or may be adversely impacted. We face similar risks as we expand and focus our business on the SMB and service provider markets.

*Failure to adequately service and support our product offerings could harm our results of operations.*

The increasing complexity of our products and associated technologies has increased the need for enhanced product warranty and service capabilities, including integration services, which may require us to develop or acquire additional advanced service capabilities and make additional investments. If we cannot adequately develop and train our internal support organization or maintain our relationships with our outside technical support providers, it could adversely affect our business.

In addition, sales of our immersive telepresence solutions are complex sales transactions, and the end-user customer typically purchases an enhanced level of support service from us so as to ensure that its significant investment can be fully operational and realized. This requires us to provide advanced services and project management in terms of resources and technical knowledge of the customer's telecommunication network. If we are unable to provide the proper level of support on a cost efficient basis, it may cause damage to our reputation in this market and may harm our business and results of operations.

*Impairment of our goodwill or other assets would negatively affect our results of operations.*

As of March 31, 2013, our goodwill was approximately \$559.7 million and other purchased intangible assets was approximately \$53.5 million, which together represent a significant portion of the assets recorded on our condensed consolidated balance sheet. Goodwill and indefinite lived intangible assets are reviewed for impairment at least annually or sooner under certain circumstances. Other intangible assets that are deemed to have finite useful lives will continue to be amortized over their useful lives but must be reviewed for impairment when events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Screening for and assessing whether impairment indicators exist, or if events or changes in circumstances have occurred requires significant judgment. Therefore, we may be required to take a charge to operations as a result of future goodwill and intangible asset impairment tests. The decreases in revenue and stock price that have occurred as a result of global economic factors make such impairment more likely to result. If impairment is deemed to exist, we would write-down the recorded value of these intangible assets to their fair values and these write-downs could harm our business and results of operations.

Further, we cannot assure you that future inventory, investment, license, fixed asset or other asset write-downs will not happen. If future write-downs do occur, they could harm our business and results of operations.

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*Difficulties in identifying and integrating our acquisitions or implementing restructuring plans could adversely impact our business.*

*Difficulties in identifying and integrating acquisitions could adversely affect our business.*

The process of identifying suitable candidates and integrating acquired companies into our operations requires significant resources and is time-consuming, expensive and disruptive to our business. Failure to achieve the anticipated benefits of any acquisitions, to retain key personnel, or to successfully integrate the operations of an acquired company could harm our business, results of operations and cash flows. We may not realize the benefits we anticipate from our acquisitions because of the following significant challenges:

- incorporating the acquired company's technology and products and services into our current and future product lines, including providing services that are new for us;
- potential deterioration of the acquired company's product sales and revenues due to integration activities and management distraction;
- managing integration issues, such as transition services provided to us by HP in the acquisition of HPVC;
- potentially creating confusion in the marketplace by ineffectively distinguishing or marketing the product offerings of the newly acquired company with our existing product lines;
- entering new businesses or product lines;
- potentially incompatible cultural differences between the two companies;
- geographic dispersion of operations;
- interruption of manufacturing operations as we transition an acquired company's manufacturing to our outsourced manufacturing model;
- generating marketing demand for an expanded product line;
- distraction of the existing and acquired sales force during the integration of the companies;
- distraction of and potential conflict with the acquired company's products in regards to our existing channel partners;
- the difficulty in leveraging the combined technologies and capabilities across all product lines and customer bases; and
- our inability to retain the customers or employees of an acquired company.

We have spent and will continue to spend significant resources identifying and acquiring businesses. Most acquisitions involve numerous risks, including difficulties in identifying strategic synergies which yield an acceptable level of return on investment, financing and integrating the operations, technologies and products of the acquired companies, the diversion of our management's attention from other business concerns and the potential loss of key employees of the acquired companies. Failure to achieve the anticipated benefits of any acquisition or to successfully integrate the operations of the acquired company could also harm our business, results of operations and cash flows. Additionally, we may incur material charges in future quarters to reflect additional costs associated with any future acquisition we may make.

*Our failure to successfully implement restructuring plans related to vacant and redundant facilities could adversely impact our business.*

We have in the past, and may in the future, as part of acquiring a company or as part of restructuring actions taken to streamline the business, identify redundant facilities. If we identify redundant facilities, we would develop a plan to exit as part of the integration of the acquired business or as part of the implementation of the restructuring plan. Any reserve would be net of estimated sublease income we expect to generate. Our estimate of sublease income is based on current comparable rates for leases in the respective markets. If actual sublease income is lower than our estimates for any reason, if it takes us longer than we estimated to sublease these facilities, or if the associated cost of subleasing or terminating our lease obligations for these facilities is greater than we estimated, we would incur additional charges to operations which would harm our business, results of operations and cash flows. To the extent that any such cash outflows or additional costs exceed the amount of our recorded liability related to the sublease or termination of these lease obligations, we could incur a charge to operations, which would harm our business and adversely impact our results of operations.

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### ***We experience seasonal demand for our products and services, which may adversely impact our results of operations during certain periods.***

Sales of some of our products have experienced seasonal fluctuations which have affected sequential growth rates for these products, particularly in our first and third quarters. For example, the first quarter of the year is typically the least predictable quarter of the year for us and there is generally a slowdown for sales of our products in the European region in the third quarter of each year. Further, the timing of fiscal year ends for our government and enterprise customers may result in significant fluctuations from quarter to quarter. Seasonal fluctuations could negatively affect our business, which could cause our operating results to fall short of anticipated results for such quarters.

### ***Our operating results are hard to predict as a significant amount of our sales may occur at the end of a quarter and certain of our service provider contracts include contractual acceptance provisions.***

*The timing of our channel partner orders and product shipments and our inability to reduce expenses quickly may adversely impact our operating results.*

Our quarterly revenues and operating results depend in large part upon the volume and timing of channel partner orders received during a given quarter and the percentage of each order that we are able to ship and recognize as revenue during each quarter, each of which is extremely difficult to forecast. We have experienced longer sales cycles in connection with our high-end UC&C solutions, which could also increase the level of unpredictability and fluctuation in the timing of orders. Further, depending upon the complexity of these solutions, such as immersive telepresence and some UC platform products, and the underlying contractual terms, revenue may not be recognized until the product has been accepted by the end-user, resulting in further revenue unpredictability.

Our expectations for both short and long-term future revenues are based almost exclusively on our own estimate of future demand and not on firm channel partner orders. Our expense levels are based largely on these estimates. In addition, a significant portion of our product orders are received in the last month of a quarter, typically the last few weeks of that quarter; thus, the unpredictability of the receipt of these orders could negatively impact our future results. For instance, we have experienced a high percentage of our bookings and resulting revenues in the third month of the quarter. For example, in the first quarter of 2013, approximately 48% of our quarterly revenues were recognized in the third month of the quarter. Accordingly, if for any reason orders and revenues do not meet our expectations in a particular period, we will be limited in our ability to reduce expenses quickly, and any significant shortfall in demand for our products in relation to our expectations would have an adverse impact on our operating results.

*Delays in receiving contractual acceptance will cause delays in our ability to recognize revenue and may impact our quarterly revenues, depending upon the timing and shipment of orders under such contracts.*

Certain of our sales contracts include product acceptance provisions which vary depending upon the type of product and individual terms of the contract. In addition, acceptance criteria may be required in other contracts in the future, depending upon the size and complexity of the sale and the type of products ordered. As we increase our focus on growing our service provider business, it is likely that an increased amount of our revenue will be subject to such contractual acceptance terms and we may introduce new revenue models that could result in less revenue being recognized upfront. Accordingly, we defer revenue until the underlying acceptance criteria in any given contract have been met. Depending upon the acceptance terms, the timing of the receipt and subsequent shipment of an order may result in acceptance delays, may reduce the predictability of our revenues, and, consequently, may adversely impact our revenues and results of operations in any particular quarter.

### ***We face risks related to our dependence on channel partners to sell our products.***

*Conflicts and competition with our channel partners and strategic partners could hurt sales of our products.*

We have OEM agreements with major telecommunications equipment manufacturers, such as Avaya and Cisco Systems, whereby we manufacture our products to work with the equipment of the OEM. These relationships can create conflicts with our other channel partners who directly compete with our OEM partners, or could create conflicts among our OEM partners who compete with each other, which could adversely affect revenues from these other channel partners or our OEM partners. Conflicts among our OEM partners could also make continued partnering with these OEM partners increasingly difficult. Our OEM partners may decide to enter into a new OEM partnership with a company other than us, such as the recent announcement that Cisco Systems has selected a different vendor to develop its latest IP conference phones, or develop products of their own, or acquire such products through acquisition, that compete with ours in the future, which could adversely affect our revenues and results of operations. Because many of our channel partners also sell equipment that competes with our products, these channel partners could devote more attention to these other products which could harm our business. Further, as a result of our more direct-touch sales model, we may alienate some of our channel partners or cause a shift in product sales from our traditional channel model. Due to these and other factors, channel conflicts could arise which cause channel partners to devote resources to non-Polycom communications equipment, or to offer new products from our competitors, which would negatively affect our business and results of operations.

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As part of our strategic initiatives, we are focusing on our strategic alliances with Microsoft, AT&T, and IBM. For example, we recently announced the expansion of our strategic relationships with AT&T and IBM to expand our offerings. Defining, managing and developing these partnerships is expensive and time consuming and may not come to fruition or yield the desired results, impacting our ability to effectively compete in the market and to take advantage of anticipated future market growth. For example, our key strategic relationship with Microsoft in which we are jointly developing and marketing a UC&C solution that leverages the demand for Microsoft's next generation UC server could negatively impact our ability to compete effectively in the UC&C marketplace if we are unsuccessful. Our mobile solutions are also dependent on our ability to successfully partner with mobile device manufacturers.

In addition, as we enter into agreements with these strategic partners to enable us to continue to expand our relationships with these partners, we may undertake additional obligations which could trigger unintended penalty or other provisions in the event that we fail to fully perform our contractual commitments or could result in additional costs beyond those that are planned in order to meet these contractual obligations.

As we continue to build strategic partnerships with companies, conflicts between our strategic partners could arise which could harm our business.

Some of our current and future products are directly competitive with the products sold by both our channel and strategic partners. As a result of these conflicts, there is the potential for our channel and strategic partners to compete head-to-head with us or to significantly reduce or eliminate their orders of our products or design our technology out of their products. Further, some of our products are reliant on strategic partnerships with call manager providers and wireless UC platform providers. These partnerships result in interoperable features between products to deliver a total solution to our mutual end-user customers. Competition with our partners in all of the markets in which we operate is likely to increase, which would adversely affect our revenues and could potentially strain our existing relationships with these companies.

*We are subject to risks associated with our channel partners' sales reporting, product inventories and product sell-through.*

We sell a significant amount of our products to channel partners who maintain their own inventory of our products for sale to dealers and end-users. Our revenue estimates associated with products stocked by some of our channel partners are based largely on end-user sales reports that our channel partners provide to us on a monthly basis. To date, we believe this data has been generally accurate. To the extent that this sales-out and channel inventory data is inaccurate or not received timely, our revenue estimates for future periods may be less reliable. Further, if these channel partners are unable to sell an adequate amount of their inventory of our products in a given quarter or if channel partners decide to decrease their inventories for any reason, such as a recurrence of global economic uncertainty and downturn in technology spending, the volume of our sales to these channel partners and our revenues would be negatively affected. In addition, we also face the risk that some of our channel partners have inventory levels in excess of future anticipated sales. If such sales do not occur in the time frame anticipated by these channel partners for any reason, these channel partners may substantially decrease the amount of product they order from us in subsequent periods, or product returns may exceed historical or predicted levels, which would harm our business and create unexpected variations in our financial results.

*Potential changes to our channel partner programs or channel partner contracts may not be favorably received and as a result our channel partner relationships and results of operations may be adversely impacted.*

Our channel partners are eligible to participate in various incentive programs, depending upon their contractual arrangements with us. As part of these arrangements, we have the right to make changes in our programs and launch new programs as business conditions warrant. Further, from time to time, we may make changes to our channel partner contracts. These changes could upset our channel partners with the effect that they could add competitive products to their portfolios, delay advertising or sales of our products, or shift more emphasis to selling our competitors' products. Our channel partners may not be receptive to future changes and we may not receive the positive benefits that we anticipate in making any program and contractual changes.

*Consolidation of our channel partners and strategic partners may result in changes to our overall business relationships, less favorable contractual terms and disruption to our business.*

We have seen consolidation among certain of our existing channel partners and strategic partners. In such instances, we may experience changes to our overall business and operational relationships due to dealing with a larger combined entity, and our ability to maintain such relationships on favorable contractual terms may be limited. Depending on the extent of these changes and other disruptions caused to the combined businesses during the integration period, the timing and extent of revenue from these channel partners may be adversely affected.

*We are subject to risks associated with the success of the businesses of our channel partners.*

Many of our channel partners that carry multiple Polycom products, and from whom we derive significant revenues, are thinly capitalized. Although we perform ongoing evaluations of the creditworthiness of our channel partners, the failure of these businesses

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to establish and sustain profitability, obtain financing or adequately fund capital expenditures could have a significant negative effect on our future revenue levels and profitability and our ability to collect our receivables. As we grow our revenues and our customer base, our exposure to credit risk increases. In addition, global economic uncertainty, reductions in technology spending in the United States and other countries, and the ongoing challenges in the financial services industry have restricted the availability of capital, which may delay collections from our channel partners beyond our historical experience or may cause companies to file for bankruptcy, jeopardizing the collectability of our receivables from such channel partners and negatively impacting our future results.

*Our channel partner contracts are typically short-term and early termination of these contracts may harm our results of operations.*

We do not typically enter into long-term contracts with our channel partners, and we cannot be certain as to future order levels from our channel partners. In the event of a termination by one of our major channel partners, we believe that the end-user customer would likely purchase from another one of our channel partners, but if this did not occur and we were unable to rapidly replace that revenue source, its loss would harm our results of operations.

*If our channel partners fail to comply with laws or standards, our business could be harmed.*

We expect our channel partners to meet certain standards of conduct and to comply with applicable laws, such as global anticorruption laws. Noncompliance with such standards or laws could harm our reputation and could result in harm to our business and results of operations in the event we were to become involved in an investigation due to such noncompliance by a channel partner.

***International sales and expenses represent a significant portion of our revenues and operating expenses and risks inherent in international operations could harm our business.***

International sales and expenses represent a significant portion of our revenues and operating expenses, and we anticipate that international sales and operating expenses will continue to increase. In the quarter ended March 31, 2013 and 2012, international revenues represented 58% and 61% of our total revenues, respectively. International sales and expenses are subject to certain inherent risks, which would be amplified if our international business grows as anticipated, including the following:

- adverse economic conditions in international markets, such as the restricted credit environment and sovereign credit concerns in EMEA and the recent reduced government spending and elongated sales cycles we have seen in China;
- foreign currency exchange rate fluctuations, including the recent volatility of the U.S. dollar, and the impact of our underlying hedging programs;
- environmental and trade protection measures and other legal and regulatory requirements, some of which may affect our ability to import our products, to export our products from, or sell our products in various countries;
- unexpected changes in regulatory requirements and tariffs;
- longer payment cycles;
- potentially adverse tax consequences; and
- the impact of instability in the Middle East or military action or other hostilities on foreign markets.

International revenues may fluctuate as a percentage of total revenues in the future as we introduce new products. These fluctuations are primarily the result of our practice of introducing new products in North America first and the additional time and costs required for product homologation and regulatory approvals of new products in international markets. To the extent we are unable to expand international sales in a timely and cost-effective manner, our business could be harmed. We may not be able to maintain or increase international market demand for our products.

Although to date, a substantial majority of our international sales have been denominated in U.S. currency, we expect that a growing number of sales will be denominated in non-U.S. currencies as more international customers request billing in their currency. In particular, with the acquisition of HPVC, a number of the customer contracts that we assumed provide for local currency billings. We maintain local currency pricing in the European Union and the United Kingdom whereby we price and invoice our products and services in Euros and British Pounds. In addition, some of our competitors currently invoice in foreign currency, which could be a disadvantage to us in those markets where we do not. Our international operating expenses are primarily denominated in foreign currency with no offsetting revenues in those currencies except for the Euro and British Pound. As a result of these factors, we expect our business will be vulnerable to currency fluctuations, which could adversely impact our revenues and margins. We will continue to evaluate whether it is necessary to denominate sales in local currencies other than the Euro and the British Pound, depending on customer requirements.

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We do not hedge for speculative purposes. As a result of our increased exposure to currency fluctuations, we typically engage in currency hedging activities to mitigate currency fluctuation exposure. Our hedging costs can vary depending upon the size of our hedge program, whether we are purchasing or selling foreign currency relative to the U.S. dollar and interest rates spreads between the U.S. and other foreign markets. As a result, interest and other income (expense), net has become less predictable and more difficult to forecast. The impact in any given quarter of our hedging programs is dependent upon a number of factors, including the actual level of foreign currency denominated revenues, the percentage of actual revenues covered by our hedge contracts, the exchange rate in our underlying hedge contracts and the actual exchange rate during the quarter. As a result of our program, we increased operating income by \$1.1 million, \$2.2 million, \$0.1 million, and \$0.3 million in the first, second, third, and fourth quarters of 2012, respectively, and \$0.7 million in the first quarter of 2013.

***Difficulties we may encounter managing a substantially larger business could adversely affect our operating results.***

*If we fail to successfully attract and retain highly qualified management personnel, our business will be harmed.*

Our future success will depend in part on our continued ability to hire, assimilate and retain highly qualified senior executives and other key management personnel. As new hires assess their areas of responsibilities and define their organizations, it will likely result in disruption to the business and additional organizational changes or restructuring actions and charges. Future changes to our executive and senior management teams, including new executive hires or departures, could cause disruption to the business and have an impact on our ability to execute successfully in future periods, while these operational areas are in transition. Competition for qualified executive and other management personnel is intense, and we may not be successful in attracting or retaining such personnel, which could harm our business.

*We have experienced significant growth in our business and operations and if we do not appropriately manage this growth and any future growth, our operating results may be negatively affected.*

Our business has grown in recent years, both organically and through business acquisitions and we have announced new products and expansion of key strategic alliances to further grow our business and market opportunities. Our execution against our strategy may strain our organizational resources and may not ultimately result in the return on investment that is anticipated. Further, continued growth may cause a significant strain on our infrastructure, internal systems and managerial resources. To manage our growth effectively, we must continue to improve and expand our infrastructure, including information technology and processes, financial operating and administrative systems and controls, and continue managing headcount and capital in an efficient manner. We plan to upgrade and expand our information technology systems and underlying business processes, which will be costly and disruptive to our business and our inability to do so could harm our business. Similarly, revenues may not grow at a sufficient rate to absorb the costs associated with a larger overall headcount. In addition, we must continue to evolve our processes to take advantage of automation tools as the size of our business grows. As our business becomes increasingly more complex, our ability to forecast and effectively control our operating expenses becomes more challenging.

We have a Shared Services Center (“SSC”) in Beijing, China, where we perform certain accounting, order entry and other functions previously performed in regional headquarter locations and we may expand our SSC operations in the future. Efforts to globalize these shared functions into one location may not yield the intended benefits and could result in higher turnover than planned, which could have an adverse effect on these functions during the transition. In addition, if the controls we put in place with respect to the SSC fail to operate effectively, our business and results of operations could be harmed.

We have in the past, and we may again in the future, implement restructuring plans to eliminate or relocate positions in order to reallocate resources to more strategic growth areas of the business and to reduce our operating costs. Such restructuring actions resulted in charges to operations of \$5.4 million and \$2.9 million during the quarter ended March 31, 2013 and 2012, respectively. Any organizational disruptions associated with restructuring activities would require increased management attention and financial expenditures which may impact our operations.

***We have limited supply sources for some key components of our products and services and for the outside development and manufacture of certain of our products, and our operations could be harmed by supply or service interruptions, component defects or unavailability of these components or products.***

Some key components used in our products are currently available from only one source and others are available from only a limited number of sources, including some key integrated circuits and optical elements. Because of such limited sources for component parts, we may have little or no ability to procure these parts on favorable pricing terms. We also obtain certain components from suppliers in China, Japan, and certain Southeast Asia countries, and any political or economic instability in these regions in the future, natural disasters, disruptions associated with infectious diseases, or future import restrictions, may cause delays or an inability to obtain these supplies. Further, we have suppliers in Israel and the military action in Iraq, Libya, Afghanistan or war with other Middle Eastern countries perceived as a threat by the United States government may cause delays or an inability to obtain supplies for our UC platform products.

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We have no raw material supply commitments from our suppliers and generally purchase components on a purchase order basis either directly or through our contract manufacturers. Some of the components included in our products, such as microprocessors and other integrated circuits, have from time to time been subject to limited allocations by suppliers. In addition, companies with limited or uncertain financial resources manufacture some of these components. Further, we do not always have direct control over the supply chain, as many of our component parts are procured for us by our contract manufacturers. In the event that we, or our contract manufacturers, are unable to obtain sufficient supplies of components, develop alternative sources as needed, or companies with limited financial resources go out of business, our operating results could be seriously harmed. In addition, we may incur additional costs to resolve these supply shortages, which would negatively impact our gross margins.

We have strategic relationships with third parties to develop and manufacture certain products for us. The loss of any such strategic relationship due to competitive reasons, contractual disputes, the financial instability of a strategic partner or their inability to obtain any financing necessary to adequately fund their operations, could have a negative impact on our ability to produce and sell certain products and product lines and, consequently, would adversely affect our revenues and results of operations.

We are dependent upon third parties to provide our managed services for our immersive telepresence products. Any disruption in our managed services for our customers may materially adversely affect our ability to sell our immersive telepresence products.

Additionally, our HDX solutions and network system products are designed based on digital signal processors and integrated circuits produced by Texas Instruments and cameras produced by JVC. If we could no longer obtain integrated circuits or cameras from these suppliers, we would incur substantial expense and take substantial time in redesigning our products to be compatible with components from other manufacturers, and we might not be successful in obtaining these components from alternative sources in a timely or cost-effective manner. The failure to obtain adequate supplies of vital components could prevent or delay product shipments, which would harm our business. We also rely on the introduction schedules of some key components in the development or launch of new products. Any delays in the availability of these key components could harm our business.

Our operating results would be seriously harmed by receipt of a significant number of defective components or components that fail to fully comply with environmental or other regulatory requirements, an increase in component prices, or our inability to obtain lower component prices in response to competitive price reductions.

***If we experience manufacturing disruptions or capacity constraints or our manufacturers fail to comply with laws or standards, our business would be harmed.***

We subcontract the manufacture of most of our products to Celestica, Askey, Flextronics, Foxconn and VTech, which are all third-party contract manufacturers. We use Celestica's facilities in Thailand and China, Flextronics' facilities in Mexico and Askey's, Foxconn's, and VTech's facilities in China. Should there be any disruption in the ability of these third party manufacturers to conduct business for any reason, our business and results of operations would be harmed. While we have begun to develop secondary manufacturing sources for certain products, Celestica's facilities are currently the manufacturer for substantially all of these products, and if Celestica experiences an interruption in operations, suffers from capacity constraints, or is otherwise unable to meet our current or future production requirements we would experience a delay or inability to ship our products, which would have an immediate negative impact on our revenues. Moreover, any incapacitation of any of our or our subcontractors' manufacturing sites due to destruction, natural disaster or similar events could result in a loss of product inventory. As a result of any of the foregoing, we may not be able to meet demand for our products, which could negatively affect revenues in the quarter of the disruption or longer depending upon the magnitude of the event, and could harm our reputation. In addition, operating in the international environment exposes us to certain inherent risks, including unexpected changes in regulatory requirements and tariffs, difficulties in staffing and managing foreign operations and potentially adverse tax consequences, all of which could harm our business and results of operations.

In addition, we expect our contractors to meet certain standards of conduct, including standards related to the environment, health and safety and general working conditions and compliance with laws. Significant or continuing noncompliance of such standards or applicable laws could harm our reputation or cause us to experience disruptions that could harm our business and results of operations. For example, the SEC has adopted rules imposing diligence and disclosure requirements around the use of "conflict minerals" in the products we have manufactured. While these rules are likely to result in additional time and cost to diligence our contractors, they may also affect the sourcing and availability of minerals we use in our products. Although we do not anticipate any material adverse effects based on these rules, we will need to ensure that our contractors comply with them. Our failure to timely comply with these rules could result in government fines, remediation costs, product delays, loss of customers and damage to our reputation, which could have a material adverse effect upon our business and results of operations.

***We face risks relating to changes in rules and regulations of the FCC and other regulatory agencies.***

Our products and services are subject to various federal, state, local, and foreign laws and regulations. Compliance with current laws and regulations has not had a material adverse effect on our financial condition. However, new laws and regulations or new or different interpretations of existing laws and regulations could deny or delay our access to certain markets or require us to incur costs or become the basis for new or increased liabilities that could have a material adverse effect on our financial condition and results of operations.

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The telecommunications industry is regulated by the Federal Communications Commission (“FCC”) in the United States and similar government agencies in other countries and is subject to changing political, economic, and regulatory influences. Changes in telecommunications requirements, or regulatory requirements in other industries in which we operate now or in the future, in the United States or other countries could materially adversely affect our business, operating results, and financial condition, including our newly acquired managed services offering. Further, changes in the regulation of our activities, such as increased or decreased regulation affecting prices, could also have a material adverse effect upon our business and results of operations.

***If we have insufficient proprietary rights or if we fail to protect those rights we have, our business could be materially impaired.***

*We rely on third-party license agreements and termination or impairment of these agreements may cause delays or reductions in product introductions or shipments which could harm our business.*

We have licensing agreements with various suppliers for software incorporated into our products. In addition, certain of our products are developed and manufactured based largely or solely on third-party technology. These third-party software licenses and arrangements may not continue to be available to us on commercially reasonable or competitive terms, if at all. The termination or impairment of these licenses could result in delays or reductions in new product introductions or current product shipments until equivalent software could be developed, licensed and integrated, which could harm our business and results of operations. Further, if we are unable to obtain necessary technology licenses on commercially reasonable or competitive terms, we could be prohibited from marketing our products, forced to market products without certain features, or incur substantial costs to redesign our products, defend legal actions, or pay damages. In addition, some of our products may include “open source” software. Our ability to commercialize products or technologies incorporating open source software may be restricted because, among other factors, open source license terms may be unclear and may result in unanticipated obligations regarding our product offerings.

*We rely on patents, trademarks, copyrights and trade secrets to protect our proprietary rights which may not be sufficient to protect our intellectual property.*

We rely on a combination of patent, copyright, trademark and trade secret laws and confidentiality procedures to protect our proprietary rights. Others may independently develop similar proprietary information and techniques or gain access to our intellectual property rights or disclose such technology. In addition, we cannot assure you that any patent or registered trademark owned by us will not be invalidated, circumvented or challenged in the U.S. or foreign countries or that the rights granted thereunder will provide competitive advantages to us or that any of our pending or future patent applications will be issued with the scope of the claims sought by us, if at all. Furthermore, others may develop similar products, duplicate our products or design around our patents. In addition, foreign intellectual property laws may not protect our intellectual property rights. Litigation may be necessary to enforce our patents and other intellectual property rights, to protect our trade secrets, to determine the validity of and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Litigation could result in substantial costs and diversion of resources which could harm our business, and we could ultimately be unsuccessful in protecting our intellectual property rights. Further, our intellectual property protection controls across our global operations may not be adequate to fully protect us from the theft or misappropriation of our intellectual property, which could adversely harm our business.

*We face intellectual property infringement claims and other litigation claims that might be costly to resolve and, if resolved adversely, may harm our operating results or financial condition.*

We are a party to lawsuits (patent-related and otherwise) in the normal course of our business. The results of, and costs associated with, complex litigation matters are difficult to predict, and the uncertainty associated with substantial unresolved lawsuits could harm our business, financial condition, and reputation. Negative developments with respect to pending lawsuits could cause our stock price to decline, and an unfavorable resolution of any particular lawsuit could have an adverse effect on our business and results of operations. In addition, we may become involved in regulatory investigations or other governmental or private legal proceedings, which could be distracting, expensive and time consuming for us, and if public, may also cause our stock price to be negatively impacted. We expect that the number and significance of claims and legal proceedings that assert patent infringement claims or other intellectual property rights covering our products, either directly against us or against our customers, will increase as our business expands. Any claims or proceedings against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources, or require us to enter into royalty or licensing agreements or pay amounts to third parties pursuant to contractual indemnity provisions. Royalty or licensing agreements, if required, may not be available on terms favorable to us or at all. An unfavorable outcome in any such claim or proceeding could have a material adverse impact on our financial position and results of operations for the period in which the unfavorable outcome occurs, and potentially in future periods. Further, any settlement announced by us may expose us to further claims against us by third parties seeking monetary or other damages which, even if unsuccessful, would divert management attention from the business and cause us to incur costs, possibly material, to defend such matters.

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***If we fail to manage our exposure to the volatility and economic uncertainty in the global financial marketplace successfully, our operating results could be adversely impacted.***

We are exposed to financial risk associated with the global financial markets, which includes volatility in interest rates, uncertainty in the credit markets and instability in the foreign currency exchange market.

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. The primary objectives of our investment activities are to preserve principal, maintain adequate liquidity and portfolio diversification while at the same time maximizing yields without significantly increasing risk. To achieve these objectives, a majority of our marketable investments include debt instruments of the U.S. government and its agencies, investment-grade corporate debt securities, bank certificates of deposit and money market instruments denominated in U.S. dollars.

The valuation of our investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact its valuation include changes to credit ratings or quality of the securities, interest rate changes, the ongoing strength and quality of the global credit market and liquidity. All of the securities in our investment portfolio are investment-grade rated, but the instability of the credit market could impact those ratings and our decision to hold these securities, if they do not meet our minimum credit rating requirements. If we should decide to sell such securities, we may suffer losses in principal value that have significantly declined in value due to the declining credit rating of the securities and the ongoing strength and the global financial markets as a whole. If the carrying value of our investments exceeds the fair value, and the decline in fair value is deemed to be other-than-temporary, we will be required to write-down the value of our investments. For the quarter ended March 31, 2013 and 2012, we did not recognize any other-than-temporary impairment or losses on our investments.

With the instability in the financial markets, we could incur significant realized or other than temporary impairment losses associated with certain of our investments which would reduce our net income. We may also incur further temporary impairment charges requiring us to record additional unrealized loss in accumulated other comprehensive income.

***Delays or loss of government contracts or failure to obtain required government certifications could have a material adverse effect on our business.***

We sell our products indirectly and provide services to governmental entities in accordance with certain regulated contractual arrangements. While reporting and compliance with government contracts is both our responsibility and the responsibility of our partner, or our partner's lack of reporting or compliance could have an impact on the sales of our products to government agencies. Further, the United States Federal government has certain certification and product requirements for products sold to them. If we are unable to meet applicable certification or other requirements within the timeframes specified by the United States Federal government, or if our competitors have certifications for competitive products for which we are not yet certified, our revenues and results of operations would be adversely impacted.

***We are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.***

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"), we are required to furnish a report by our management on our internal control over financial reporting. Such report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. While we were able to assert in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, that our internal control over financial reporting was effective as of December 31, 2012, we must continue to monitor and assess our internal control over financial reporting. In addition, our control framework may suffer if we are unable to adapt our control framework appropriately as we continue to grow our business. If we are unable to assert in any future reporting period that our internal control over financial reporting is effective (or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls), we could lose investor confidence in the accuracy and completeness of our financial reports, which would have an adverse effect on our stock price.

***Changing laws and increasingly complex corporate governance and public disclosure requirements could have an adverse effect on our business and operating results.***

Changing laws, regulations and standards, including those relating to corporate governance, social environmental responsibility, anticorruption and public disclosure and newly enacted SEC regulations, have created additional compliance requirements for us. Our efforts to comply with these requirements have resulted in an increase in expenses and a diversion of management's time from other business activities. While we believe we are compliant with laws and regulations in jurisdictions where we do business, we must continue to monitor and assess our compliance in the future, and we must also continue to expand our compliance procedures. Any failures in these procedures in the future could result in time consuming and costly activities, potential fines and penalties, and diversion of management time, all of which could hurt our business.

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### ***Changes in existing financial accounting standards or practices may adversely affect our results of operations.***

Changes in existing accounting rules or practices, new accounting pronouncements, or varying interpretations of current accounting pronouncements could have a significant adverse effect on our results of operations or result in changes to our business operations in support of such changes. Further, such changes could potentially affect our reporting of transactions completed before such changes are effective.

### ***Changes in our tax rates could adversely affect our future results.***

We are a U.S. based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates, which are difficult to predict, could be unfavorably affected by changes in, or interpretation of, tax rules and regulations in the jurisdictions in which we do business, by unanticipated decreases in the amount of revenue or earnings in countries with low statutory tax rates, by lapses of the availability of the U.S. research and development tax credit, or by changes in the valuation of our deferred tax assets and liabilities. Further, the accounting for stock compensation expense in accordance with ASC 718 and uncertain tax positions in accordance with ASC 740 could result in more unpredictability and variability to our future effective tax rates.

We are also subject to the periodic examination of our income tax returns by the Internal Revenue Service and other tax authorities, and in some cases, we have received additional tax assessments. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. We may underestimate the outcome of such examinations which, if significant, would have a material adverse effect on our results of operations and financial condition.

### ***Business interruptions could adversely affect our operations.***

Our operations are vulnerable to interruption by fire, earthquake, or other natural disaster, quarantines or other disruptions associated with infectious diseases, national catastrophe, terrorist activities, war, ongoing disturbances in the Middle East, an attack on Israel, disruptions in our computing and communications infrastructure due to power loss, telecommunications failure, human error, physical or electronic security breaches and computer viruses (which could leave us vulnerable to the loss of our intellectual property or the confidential information of our customers, disruption of our business activities and potential litigation), and other events beyond our control. We have a business continuity program that is based on enterprise risk assessment which addresses the impact of natural, technological, man-made and geopolitical disasters on our critical business functions. This plan helps facilitate the continuation of critical business activities in the event of a disaster but may not prove to be sufficient. In addition, our business interruption insurance may not be sufficient to compensate us for losses that may occur, and any losses or damages incurred by us could have a material adverse effect on our business and results of operations. Further, given our linearity, any interruption of our business, business processes or systems late in a fiscal quarter could potentially negatively impact our financial results for such period.

In the case of our managed services business, any circuit failure or downtime could affect a significant portion of our customers. Since our ability to attract and retain customers depends on our ability to provide customers with highly reliable service, even minor interruptions could harm our reputation or cause us to miss contractual obligations, which could have a material adverse effect on our operating results and our business.

### ***Our cash flow could fluctuate due to the potential difficulty of collecting our receivables and managing our inventories.***

Over the past few years, we have made significant investments in EMEA and Asia to expand our business in these regions. In EMEA and Asia, as with other international regions, credit terms are typically longer than in the United States. Therefore, as Europe, Asia and other international regions have grown as a percentage of our revenues, accounts receivable balances have increased as compared to previous years, and we expect this trend to continue. As a result, we have seen our days sales outstanding increase. Although from time to time we have been able to largely offset the effects of these influences through additional incentives offered to channel partners at the end of each quarter in the form of prepay discounts, these additional incentives have lowered our profitability. In addition, economic uncertainty or a downturn in technology spending in the United States and other countries could restrict the availability of capital, which may delay our collections from our channel partners beyond our historical experience or may cause companies to file for bankruptcy. Either a delay in collections or bankruptcy would harm our cash flow and days sales outstanding performance.

In addition, as we manage our business and focus on shorter shipment lead times for certain of our products and implement freight cost reduction programs, our inventory levels may increase, resulting in decreased inventory turns that could negatively impact our cash flow. We believe inventory turns will continue to fluctuate depending upon our ability to reduce lead times, as well as due to changes in anticipated product demand and product mix and the mix of ocean freight versus air freight.

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*Our stock price fluctuates as a result of the conduct of our business and stock market fluctuations and may be extremely volatile.*

The market price of our common stock has from time to time experienced significant fluctuations. The market price of our common stock may be significantly affected by a variety of factors, including:

- statements or changes in opinions, ratings or earnings estimates made by brokerage firms or industry analysts relating to the market in which we do business, including competitors, partners, suppliers or telecommunications industry leaders or relating to us specifically;
- the announcement of new products, product enhancements or acquisitions by us or by our competitors;
- technological innovations by us or our competitors;
- quarterly variations in our results of operations;
- failure of our future operating results to meet expectations of stock market analysts or investors, which is inherently subject to greater risk and uncertainty as expectations increase, or any financial guidance we may provide to the market;
- general market conditions or market conditions specific to technology industries; and
- domestic and international macroeconomic factors.

In addition, the stock market has in the past experienced significant price and volume fluctuations related to general economic, political and market conditions. These fluctuations have had a substantial effect on the market prices for many high technology companies like us and are often unrelated to the operating performance of the specific companies. As with the stock of many other public companies, the market price of our common stock continues to be volatile. This excessive volatility in our stock price is unpredictable and may continue for an indefinite period of time.

## Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

### *Share Repurchase Program*

The following table provides a month-to-month summary of the stock purchase activity based upon settlement date during the quarter ended March 31, 2013:

Period	Total Number of Shares Purchased (1)(2)	Average Price Paid per Share(1)(2)	Total Number of Shares Purchased	Approximate Dollar Value of Shares
			as Part of Publicly Announced Plan (2)	that May Yet be Purchased Under the Plan(2)
1/1/13 to 1/31/13	780	\$ 11.40	—	\$ 72,787,000
2/1/13 to 2/28/13	1,089,755	\$ 9.61	695,842	\$ 66,141,000
3/1/13 to 3/31/13	2,671,969	\$ 10.32	2,671,827	\$ 39,135,000
Total	<u>3,762,504</u>	<u>\$ 10.53</u>	<u>3,367,669</u>	

- (1) Includes 394,835 shares repurchased in January through March 2013 to satisfy tax withholding obligations as a result of the vesting of performance shares and restricted stock units.
- (2) In May 2008, we announced that our Board of Directors approved a share repurchase plan under which we may at our discretion purchase shares in the open market from time to time with an aggregate value of up to \$300.0 million (“the 2008 share repurchase plan”). In addition, in May 2012, our Board of Directors approved an increase in our share repurchase authorization to include the net proceeds from the sale of our EWS business, which was completed in December 2012, or net proceeds of \$50.3 million through March 31, 2013, including \$0.6 million from the net working capital adjustment we received in the quarter ended March 31, 2013. As of March 31, 2013, we were authorized to purchase up to an additional \$39.1 million of shares in the open market under the 2008 share repurchase plan. These shares of common stock have been retired and reclassified as authorized and unissued shares. The 2008 share repurchase plan does not have an expiration date but is limited by the dollar amount authorized.

## Item 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

## Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

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### Item 5. OTHER INFORMATION

Not Applicable.

### Item 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
10.1*	Separation Agreement and Release with Sudhakar Ramakrishna, dated March 11, 2013 (which is incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on March 15, 2013).
10.2(1)*	Form of Restricted Stock Unit Agreement for Non-Employee Directors.
10.3*	Polycom, Inc. Executive Severance Plan and Summary Plan Description, as amended and restated effective January 31, 2013 (which is incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on February 6, 2013).
31.1(1)	Certification of the President and Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(c) and 15d-14(a).
31.2(1)	Certification of the Executive Vice President, Finance and Administration and Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(c) and 15d-14(a).
32.1(1)	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Calculation Linkbase Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

\* Indicates management contract or compensatory plan or arrangement.

\*\* XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Exchange Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

(1) Filed herewith.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: April 30, 2013

**POLYCOM, INC.**

*/s/ A NDREW M. M ILLER*

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**Andrew M. Miller**  
**President and Chief Executive Officer**  
**(Principal Executive Officer)**

*/s/ E RIC F. B ROWN*

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**Eric F. Brown**  
**Chief Operating Officer, Chief Financial Officer, and**  
**Executive Vice President**  
**(Principal Financial Officer)**

*/s/ L AURA J. D URR*

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**Laura J. Durr**  
**Senior Vice President and Worldwide Controller**  
**(Principal Accounting Officer)**

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(1) Filed herewith.

**NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNIT AGREEMENT  
TIME-BASED VESTING**

**POLYCOM, INC.**

**RESTRICTED STOCK UNIT AGREEMENT**

[NAME]

**Award Number:** [NUMBER]

**NOTICE OF GRANT**

Polycom, Inc. (the "Company") hereby grants you, [NAME] (the "Director"), an award of Restricted Stock Units under the Company's 2011 Equity Incentive Plan (the "Plan"). The date of this Restricted Stock Unit Agreement (the "Agreement") is [DATE] (the "Grant Date"). Subject to the provisions of Appendix A (attached), and of the Plan, the principal features of this award are as follows:

**Number of Restricted Stock Units:** [ \_\_\_\_\_ ]

**Vesting Schedule:** The Restricted Stock Units will vest in accordance with the following schedule: [INSERT VESTING SCHEDULE] \*

***IMPORTANT :***

\* Except as otherwise provided in Appendix A, Director will not vest in the Restricted Stock Units unless he or she is employed by the Company or one of its Subsidiaries through the applicable vesting date.

Your signature below indicates your agreement and understanding that this award is subject to all of the terms and conditions contained in Appendix A and the Plan. For example, important additional information on vesting and forfeiture of the Restricted Stock Units is contained in paragraphs 3 through 5 and paragraph 7 of Appendix A. **PLEASE BE SURE TO READ ALL OF APPENDIX A, WHICH CONTAINS THE SPECIFIC TERMS AND CONDITIONS OF THIS AGREEMENT.**

**POLYCOM, INC.**

**DIRECTOR**

\_\_\_\_\_  
[NAME]  
[TITLE]

\_\_\_\_\_  
[NAME]

Date: \_\_\_\_\_, 2013

Date: \_\_\_\_\_, 2013

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## APPENDIX A

### TERMS AND CONDITIONS OF RESTRICTED STOCK UNITS

1. Grant. The Company hereby grants to the Director under the Plan an award of the Number of Restricted Stock Units set forth on the Notice of Grant, subject to all of the terms and conditions in this Agreement and the Plan. When Shares are paid to the Director in payment for the Restricted Stock Units, par value will be deemed paid by the Director for each Restricted Stock Unit by past services rendered by the Director, and will be subject to the appropriate tax withholdings. Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Plan.

2. Company's Obligation to Pay. Each Restricted Stock Unit has a value equal to the Fair Market Value of a Share on the date that the Restricted Stock Unit is granted. Unless and until the Restricted Stock Units have vested in the manner set forth in paragraphs 3 through 5, the Director will have no right to payment of such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Units will represent an unsecured obligation. Payment of any vested Restricted Stock Units will be made in whole Shares only.

3. Vesting Schedule/Period of Restriction. Except as provided in paragraphs 4 and 5, and subject to paragraph 7, the Restricted Stock Units awarded by this Agreement shall vest in accordance with the vesting provisions set forth on the first page of this Agreement. Except as provided in paragraphs 4 and 5, and subject to paragraph 7, Restricted Stock Units shall not vest in the Director in accordance with any of the provisions of this Agreement unless the Director shall have been continuously providing service to the Company or to one of its Subsidiaries from the Grant Date until the date the Restricted Stock Units are otherwise scheduled to vest.

4. Modifications to Vesting Schedule.

(a) *Death or Disability of Director*. In the event that the Director incurs a Termination of Service due to his or her death or Disability, the Restricted Stock Units shall fully vest on the date of the Director's death or Disability.

(b) *Voluntary Termination*. In the event the Director voluntarily terminates his or her service from the Board and such voluntary termination occurs not less than six (6) months after the Grant Date, the Restricted Stock Units shall **[INSERT DESCRIPTION OF VESTING CONDITIONS]**.

(c) *Change in Control*. In the event of a Change in Control, this award shall be subject to the definitive agreement governing such Change in Control. Such agreement, without the Director's consent and notwithstanding any provision to the contrary in this Agreement or the Plan, must provide for one of the following: (a) the assumption of this award by the surviving corporation or its parent; (b) the substitution by the surviving corporation or its parent of an award with substantially the same terms as this award; or (c) the acceleration of the vesting of 100% of the Restricted Stock

Units that remain unvested at the time of the Change in Control. In the event the definitive agreement does not provide for one of the foregoing alternatives with respect to the treatment of this award, this award shall have the treatment specified in clause (c) of the preceding sentence. The Committee may, in its sole discretion, accelerate the vesting of this award in connection with any of the foregoing alternatives. In addition, if the Director is not asked to be a member of the board of directors of the combined successor entity following a Change in Control that occurs prior to the date this award is fully vested, this award shall become fully vested as to all of the Restricted Stock Units that are unvested immediately preceding the Change in Control and Paragraph 25 hereof shall be deemed to be without force and effect. For purposes of this Agreement, "Change in Control" means the occurrence of any of the following events: (a) any "person" (as such term is used in Sections 13(d) and 14(d) of the 1934 Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the 1934 Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company's then outstanding voting securities; (b) the consummation of the sale or disposition by the Company of all or substantially all of the Company's assets; (c) a change in the composition of the Board occurring within a one-year period, as a result of which fewer than a majority of the directors are Incumbent Directors; or (d) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation. "Incumbent Directors" means directors who either (A) are Directors as of the effective date of the Plan, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Directors at the time of such election or nomination (but will not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

5. Committee Discretion. The Committee, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the Restricted Stock Units at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock Units will be considered as having vested as of the date specified by the Committee. If the Committee, in its discretion, accelerates the vesting of the balance, or some lesser portion of the balance, of the Restricted Stock Units and the Restricted Stock Units are "deferred compensation" within the meaning of Section 409A, the payment of such accelerated Restricted Stock Units nevertheless shall be made at the same time or times as if such Restricted Stock Units had vested in accordance with the vesting schedule set forth in the Notice of Grant (whether or not the Director remains providing services to the Company or to one of its Subsidiaries as of such date(s)). Notwithstanding the foregoing, if such Restricted Stock Units are accelerated in connection with the Director's Termination of Service (other than due to death), the Restricted Stock Units that vest on account of the Director's Termination of Service will not be considered due or payable until the Director has a "separation from service" within the meaning of Section 409A. In addition, if the Director is a "specified employee" within the meaning of Section 409A at the time of the Director's separation from service, then any such accelerated Restricted Stock Units otherwise payable within the six (6) month period following the Director's separation from service instead will be paid on the date that is six (6) months and one (1) day following the date of the Director's separation from service, unless the Director dies following his or her separation from service, in which case, the accelerated Restricted

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Stock Units will be paid to the Director's estate as soon as practicable following his or her death, subject to paragraph 8. Thereafter, such Restricted Stock Units shall continue to be paid in accordance with the vesting schedule set forth on the first page of this Agreement. For purposes of this Agreement, "Section 409A" means Section 409A of the U.S. Internal Revenue Code of 1986, as amended, and any final Treasury Regulations and other Internal Revenue Service guidance thereunder, as each may be amended from time to time ("Section 409A").

6. Payment after Vesting. Any Restricted Stock Units that vest in accordance with paragraphs 3 through 4 will be paid to the Director (or in the event of the Director's death, to his or her estate) in Shares as soon as practicable following the date of vesting, subject to paragraph 9, but in no event later than the applicable two and one-half (2 1/2) month period of the "short-term deferral" rule set forth in the Section 1.409A-1(b)(4) of the Treasury Regulations issued under Section 409A. Notwithstanding the foregoing, if the Restricted Stock Units are "deferred compensation" within the meaning of Section 409A, the vested Restricted Stock Units will be released to the Director (or in the event of the Director's death, to his or her estate) in Shares as soon as practicable following the date of vesting, subject to paragraph 9, but in no event later than the end of the calendar year that includes the date of vesting or, if later, the fifteen (15th) day of the third (3rd) calendar month following the date of vesting (provided that the Director will not be permitted, directly or indirectly, to designate the taxable year of the payment). Further, if some or all of the Restricted Stock Units that are "deferred compensation" within the meaning of Section 409A vest on account of the Director's Termination of Service (other than due to death) in accordance with paragraphs 3 through 4, the Restricted Stock Units that vest on account of the Director's Termination of Service will not be considered due or payable until the Director has a "separation from service" within the meaning of Section 409A. In addition, if the Director is a "specified employee" within the meaning of Section 409A at the time of the Director's separation from service (other than due to death), then any accelerated Restricted Stock Units will be paid to the Director no earlier than six (6) months and one (1) day following the date of the Director's separation from service unless the Director dies following his or her separation from service, in which case, the Restricted Stock Units will be paid to the Director's estate as soon as practicable following his or her death, subject to paragraph 9. Any Restricted Stock Units that vest in accordance with paragraph 5 will be paid to the Director (or in the event of the Director's death, to his or her estate) in Shares in accordance with the provisions of such paragraph, subject to paragraph 9. For each Restricted Stock Unit that vests, the Director will receive one Share.

7. Forfeiture. Notwithstanding any contrary provision of this Agreement, the balance of the Restricted Stock Units that have not vested pursuant to paragraphs 3 through 5 at the time of the Director's Termination of Service for any or no reason will be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company.

8. Death of Director. Any distribution or delivery to be made to the Director under this Agreement will, if the Director is then deceased, be made to the administrator or executor of the Director's estate. Any such administrator or executor must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

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9. Withholding of Taxes. When Shares are issued as payment for vested Restricted Stock Units, all income and other taxes related to the Restricted Stock Units award and any Shares delivered in payment thereof are the sole responsibility of the Director.

10. No Effect on Service. The terms of the Director's service to the Company, whether as a Director or otherwise, will be determined from time to time by the Company and the Company will have the right, which is hereby expressly reserved, to terminate or change the terms of the service as a Director at any time for any reason whatsoever, with or without good cause. The transactions contemplated hereunder and the vesting schedule set forth in the Notice of Grant do not constitute an express or implied promise of continued service as a Director for any period of time. A leave of absence or an interruption in service (including an interruption during military service) authorized or acknowledged by the Company shall not be deemed a Termination of Service for the purposes of this Agreement.

11. Rights as Stockholder. Neither the Director nor any person claiming under or through the Director will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares (which may be in book entry form) will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Director (including through electronic delivery to a brokerage account). After such issuance, recordation and delivery, the Director will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

12. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company, in care of its General Counsel, at 6001 America Center Drive, San Jose, CA 95002, or at such other address as the Company may hereafter designate in writing.

13. Grant is Not Transferable. Except to the limited extent provided in this Agreement, this grant of Restricted Stock Units and the rights and privileges conferred hereby will not be sold, pledged, assigned, hypothecated, transferred or disposed of any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process, until the Director has been issued Shares in payment of the Restricted Stock Units. Upon any attempt to sell, pledge, assign, hypothecate, transfer or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

14. Restrictions on Sale of Securities. The Shares issued as payment for vested Restricted Stock Units under this Agreement will be registered under U.S. federal securities laws and will be freely tradable upon receipt. However, a Director's subsequent sale of the Shares may be subject to any market blackout-period that may be imposed by the Company and must comply with the Company's insider trading policies, and any other applicable securities laws.

15. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. Additional Conditions to Issuance of Certificates for Shares. The Company shall not be required to issue any certificate or certificates for Shares hereunder prior to fulfillment of all the following conditions: (a) the admission of such Shares to listing on all stock exchanges on which such class of stock is then listed; (b) the completion of any registration or other qualification of such Shares under any U.S. state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body, which the Committee shall, in its absolute discretion, deem necessary or advisable; (c) the obtaining of any approval or other clearance from any U.S. state or federal governmental agency, which the Committee shall, in its absolute discretion, determine to be necessary or advisable; and (d) the lapse of such reasonable period of time following the date of vesting of the Restricted Stock Units as the Committee may establish from time to time for reasons of administrative convenience.

17. Plan Governs. This Agreement is subject to all the terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern.

18. Committee Authority. The Committee will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the Committee in good faith will be final and binding upon the Director, the Company and all other interested persons. No member of the Committee will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

19. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

20. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

21. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. The Director expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of the Director, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A prior to the actual payment of Shares pursuant to this award of Restricted Stock Units (but, to the extent reasonably possible, without materially reducing the economic benefits to be provided to the Director).

22. Amendment, Suspension or Termination of the Plan. By accepting this Restricted Stock Units award, the Director expressly warrants that he or she has received a right to receive

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stock under the Plan, and has received, read and understood a description of the Plan. The Director understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

23. Disclosure of Director Information. By accepting this Restricted Stock Units award, the Director consents to the collection, use and transfer of personal data as described in this paragraph. The Director understands that the Company and its Subsidiaries hold certain personal information about him or her, including his or her name, home address and telephone number, date of birth, social security or identity number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all awards of Restricted Stock Units or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in his or her favor, for the purpose of managing and administering the Plan (“Data”). The Director further understands that the Company and/or its Subsidiaries will transfer Data among themselves as necessary for the purpose of implementation, administration and management of his or her participation in the Plan, and that the Company and/or any of its Subsidiaries may each further transfer Data to any third parties assisting the Company in the implementation, administration and management of the Plan. The Director understands that these recipients may be located in the European Economic Area, or elsewhere, such as in the U.S. The Director authorizes the Company to receive, possess, use, retain and transfer the Data in electronic or other form, for the purposes of implementing, administering and managing his or her participation in the Plan, including any requisite transfer to a broker or other third party with whom he or she may elect to deposit any Shares of stock acquired from this award of Restricted Stock Units of such Data as may be required for the administration of the Plan and/or the subsequent holding of Shares of stock on his or her behalf. The Director understands that he or she may, at any time, view the Data, require any necessary amendments to the Data or withdraw the consent herein in writing by contacting the Equity Programs Department for the Company and/or its applicable Subsidiaries.

24. Notice of Governing Law. This award of Restricted Stock Units shall be governed by, and construed in accordance with, the laws of the State of California, without regard to principles of conflict of laws.

25. Non-Solicit. The Director agrees that for the period commencing on the date the Director executes this option and ending on the date occurring twelve (12) months after the Director incurs a Termination of Service, the Director will not either directly or indirectly solicit, induce, recruit, or encourage any of the Company’s employees to leave their employment, or take away such employees, either for the benefit of the Director or on behalf of another entity.

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## CERTIFICATION

I, Andrew M. Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Polycom, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

April 30, 2013

By: /s/ ANDREW M. MILLER  
Name: Andrew M. Miller  
Title: President and Chief Executive Officer

## CERTIFICATION

I, Eric F. Brown, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Polycom, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

April 30, 2013

By: /s/ E RIC F. B ROWN

Name: Eric F. Brown

Title: Chief Operating Officer, Chief Financial Officer, and  
Executive Vice President

**Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Andrew M. Miller, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Polycom, Inc. on Form 10-Q for the three months ended March 31, 2013 fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Polycom, Inc.

April 30, 2013

By: /s/ A NDREW M. M ILLER  
Name: Andrew M. Miller  
Title: President and Chief Executive Officer

**Certification of the Chief Financial Officer, Chief Operating Officer, and Executive Vice President pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Eric F. Brown, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Polycom, Inc. on Form 10-Q for the three months ended March 31, 2013 fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Polycom, Inc.

April 30, 2013

By: /s/ E RIC F. B ROWN  
Name: Eric F. Brown  
Title: Chief Operating Officer, Chief Financial Officer, and Executive Vice President